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Budget execution (O and M,N) at Navy shore activities

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THESIS

BUDGET EXECUTION (O&M,N) AT
NAVY SHORE ACTIVITIES

by

William Joseph Donnelly

December 1980

Thesis Advisor: R.A. Bobulinski

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This thesis addresses the budget execution function at Navy shore commands in regard to the expenditure of Operations and Maintenance, Navy (O&M,N) appropriated funds. The paper discusses the basics of management control and links the budget execution function thereto. The discussion of management control includes an explanation of the Management by Objectives and Results (MOR) model. The thesis also discusses current budget execution

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practices and procedures as well as the financial environment within which shore activities operate. Results of a budget execution questionnaire which was completed by the comptrollers of 49 Navy shore commands are presented and analyzed in terms of the conceptual foundations of management control addressed within this paper. A number of system shortfalls are discussed including the significant absence of a meaningful crosswalk between financial and performance results in management reporting systems and the lack of a formalized resourses management training emphasis at shore commands. Finally, appropriate recommendations for system improvements and further research are made.

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Budget Execution (O&M,N) at Navy Shore Activities

by

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Submitted in partial fulfillment of the requirements for the degree of

MASTER OF SCIENCE IN MANAGEMENT

from the

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December 1980

ABSTRACT

This thesis addresses the budget execution function at Navy shore commands in regard to the expenditure of Operations and Maintenance, Navy (O&M,N) appropriated funds. The paper discusses the basics of management control and links the budget execution function thereto. The discussion of management control includes an explanation of the Management by Objectives and Results (MOR) model. The thesis also discusses current budget execution practices and procedures as well as the financial environment within which shore activities operate. Results of a budget execution questionnaire which was completed by the comptrollers of 49 Navy shore commands are presented and analyzed in terms of the conceptual foundations of management control addressed within this paper. A number of system shortfalls are discussed including the significant absence of a meaningful crosswalk between financial and performance results in management reporting systems and the lack of a formalized resources management training emphasis at shore commands. Finally, appropriate recommendations for system improvements and further research are made.

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I. INTRODUCTION

A. GENERAL

The 1980's will pose many challenges to the American National Defense system. One of these challenges, as it has been for decades, will be in continued pursuit toward optimalization of resource utilization concomitant with achievement of national goals. This challenge is a most formidable one which is comprised of numerous facets or components. The budgetary process is certainly a major aspect of any resource utilization system and it has been the subject of numerous scholarly writings.

The past decade has been characterized by rising inflation and increasing public consciousness of government spending. The future seems to indicate a continuation of the austere financial environment and the nation's penchant for a critical and detailed overview function in relation to public expenditures. These challenges and trends bespeak the necessity for Navy managers at all levels to constantly access their procedures and control systems in an effort to achieve the best possible results. The author contends that the execution phase of the budgetary process is an area in which vast potential lies for making a substantial contribution toward meeting this 'optimalization of resource utilization' challenge. In this vein, budget execution for the Operations and

Maintenance, Navy Appropriation (O&M,N)[1] at naval shore activities is considered to be a subject worthy of extensive review and study.

1. Budget Execution Examined

Management literature is replete with definitions of a budget. Wildavsky (1964) states: "In the most general definition, budgeting is concerned with the translation of financial resources into human purposes. A budget, therefore, may be characterized as a series of goals with price tags attached." [54: pg 2]. In striving for an operational definition, Lynch (1979) summarizes: "'Budget' is a plan for the accomplishment of programs related to objectives and goals within a definite time period, including an estimate of resources required, together with an estimate of the resources available, usually compared with one or more past periods and showing future requirements." [28: pg 5]

The Department of the Navy (DON) Programming Manual defines a budget as: "A planned program for a fiscal period

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[1] An appropriation is an authorization by an Act of Congress to incur obligations for specified purpose and to make payments therefore out of the Treasury. [39: pg A-6] The appropriation, Operation and Maintenance Navy (see par. 022201.9), provides for expenses, not otherwise provided for, necessary for the operation and maintenance of the Navy and Marine Corps, as authorized by law; as follows: for Strategic Forces; for General purpose forces, for Intelligence and communications; for Central supply and maintenance; for Training operations and other general personnel activities; for Medical activities; for Administration and associated activities; and for the Support of other nations. [36: pg 4-75]

in terms of (a) estimated costs, obligations, and expenditures, (b) source of funds for financing, including reimbursements anticipated, and other resources to be applied, and (c) history and workload data on the projected programs and activities." [17:pg 349] More specifically, at the naval shore activity level, "the operating budget is designed to provide a plan in terms of budget classification codes, functional/subfunctional categories, and cost accounts against which performance can be measured, variances analyzed, and adjustments made as necessary to permit more effective management of resources at all echelons." [18: pg 3-3]

Budget execution is viewed within the DON as that phase of the budget cycle which encompasses all actions required to accomplish effectively, efficiently, and economically the programs for which funds were requested and approved by competent authority. [36: pg 3-1]. It is essentially concerned with the accomplishment of plans, utilizing appropriated funds as wisely and prudently as possible.

Morrisey (1976) sees "an assigned budget as an objective. It is not an 'allotment check' that is ours to spend as we see fit. We have a stewardship obligation to the organization to see that it is used to the best overall organizational advantage." [34, pg 128,9]. In the most basic terms, Burkhead (1956) states that "budget execution should preserve the intent of the legislature but at the same time should maintain flexibility at all levels of administration."

[11: pg 342]. He goes on to say that "budget execution is traditionally conceived as almost wholly a matter of financial control, and its success is very often judged in terms of preventing deficiencies." [11: pg 343].

Anthony and Herzlinger (1980) make a very valid point in reference to the phraseology of budget execution: "Some people refer to actual operations as 'executing the budget.' This is an unfortunate term because it implies that the operating manager's job is to spend whatever the budget says can be spent. A better term is 'executing the program.' This implies that the primary job is to accomplish the program objectives; the budget shows the resources that are available for this purpose." [6: pg 343]. Although his point is worthy of consideration, the term budget execution will be utilized throughout this thesis to generally reflect all aspects of that process of the measurement and control of the implementation of the operating budget against the approved plan.

Burkhead also raises a valid point when he iterates that "in most governments throughout the world not only does budget execution come to be dominated by accounting considerations, but the whole process tends to freeze into rigid routines." [11: pg 350]. This observation by Burkhead must be maintained in its proper perspective when reviewing Navy directives such as the Navy Comptroller (NAVCOMPT) Manual, Vol VII which states: "Effective budget execution requires procedures for control and evaluation which will ensure compliance with

regulations and limitations established by the Congress, the General Accounting Office, the Treasury Department, the Office of Management and Budget (OMB) and the Secretary of Defense, as well as by all echelons of responsibility and command within the Department of the Navy." [36: pg 3-1]. Accurate, prompt and viable accounting procedures are unquestionably of significant importance to budget execution, but they are a part of the whole and will therefore not be the central issue of this thesis.

Budget execution must be viewed within the total context of management control. As the Practical Comptrollership Course Student Text at the Naval Postgraduate School states: "The principal role of the execution phase of the budget cycle concerns required management actions during that period of time that appropriations are made available for obligation. Such actions require both continuous and specific reviews ... followed by appropriate corrective actions ..." [39: pg D-9]. In this regard, Anthony's insight that "many agencies continue to regard the budgetary process solely as a device for obtaining money (which is part of its function), rather than as a management tool to guide and control the work of the agency (which is an equally important part)" [6: pg 55,6] bears acknowledgement when reviewing field activity practices, procedures and biases in executing the O&M,N Appropriation.

The appropriation is not a mandate to spend. It is rather an authorization to accomplish approved programs within

the amounts specified. [17: pg 128]. The accomplishment of programs within these limitations necessitates attention to all aspects of management control (i.e., budget execution is not an activity separate and distinct from the overall managerial process). In this vein, Sherwood (1977) writes: "In considering the objectives of a system for budget execution a few thoughts should come to mind. Congress, having approved the budget through the appropriation process, had some basic objectives, reasoning, or intent and these should be preserved. Just as budget preparation must be concerned with structuring the efficient use of scarce resources, budget execution should be concerned with carrying out that efficiency." [45: pg 15]

2. <u>The Linking of Budget Execution and Management Control</u>

Welsch (1957) views "control, as applied to budgeting, ... as a systematized effort aimed at keeping management informed of conformance or lack of conformance to predetermined plans, objectives and policies. Control implies measurement, and this requires a yardstick for the entire organization ... the comprehensive budgetary program." [53: pg 9]. He further states that "budgetary control involves the use of budgets and budgetary reports throughout the period to coordinate, evaluate and control day-to-day operations in accordance with the goals specified by the budget ... Budgetary control involves a constant checking and evaluation of actual results compared with budget goals, which should result in corrective action where indicated." [53: pg 4]. Although Welsch's comments were

specifically addressed to profit oriented firms, DON directives regarding performance review address similar points:

> Commanding officers should establish internal reporting procedures for cost center budget execution which will disclose on a timely basis:
>
> 1. actual costs compared to the plan,
> 2. significant variance in actual costs,
> 3. the reasons for the variances, and
> 4. the status of the total operating budget.
>
> Within the authorized flexibility of the operating budget, the commanding officer should, after analysis of the budget and accounting reports, take action to adjust the planned operating budget to recognize the actual cost situation and to make appropriate shifts between programs and/or cost centers. Variations in programs from original cost estimates should be carefully analyzed and the applicable programs should be revised to recognize the analytical results. [18: pg 3-11].

Lynch recognizes this same fact when he affirms that "a budget execution system should be established which gives direction to agency activities and permits continuous and current reviews to determine if planned objectives are being met." [28: pg 145]. Anthony and Herzlinger indicate that, with rare exceptions, a management control system is built around a financial structure [6: pg 18]. They view a management control system as a coordinated, integrated system (i.e. although data collected for one purpose may differ from those collected for another purpose, these data should be reconcilable with one another) [6: pg 19]. In the fulfillment of budget execution mandates of the Congress, the financial structure (largely recognizable in the budget) and the control process become completely intermingled. Hence budget execution

and management control will be handled as subjects which must be dealt with synonymously; not as if they are discrete subjects.

3. Budget Planning - Execution Crosswalk

Burkhead aptly recognizes that "preparation and execution are separate and distinct phases of the budget cycle, but unless each builds on the other, governmental administration will fail to utilize the full potentialities of the budget as an instrument of governance." [11: pg 340]. Lynch envisions three important approaches to the budgetary process: control, management and planning. Control is insuring that monies are spent according to established policy and that no resources are used illegally. Management is utilizing the budget process to direct the people in the bureaucracy and to achieve as much efficiency and economy in programs as possible. Planning emphasizes the improvement of the political decision-making process. He clearly states that the three approaches are not mutually exclusive [28: pg 9]. Koontz and O'Donnell (1972) also recognize a similar relationship that "budgeting is never more perfect than the planning behind it ... Budgets are meant to be tools, and not the masters, of managers." [25: pg 638]. Clearly, "management must come to regard budgetary control as a part of its responsibilities, and budgetary control patterns must not be separated from other management controls." [11: pg 347].

Volumes have been written on the planning-programming-budgeting cycle utilized within the Department of Defense (DOD). Although the basics of the system will be very briefly reviewed, the inter-relationship of planning to budget formulation to budget execution is accepted as fact by the author. This thesis will not concern itself with replowing those fields of academic endeavor.

B. THE OBJECTIVE

The execution of the O&M,N Appropriation at naval shore activities is a topic of concern within the DON and the DOD.[2] It is also an area of research that has potential for precipitating improved management practices and resource utilization efficiencies as stated earlier. Therefore. as a point of departure, the author became interested in determining what specific control systems or procedures existed at Navy activities that detailed how the O&M,N Appropriation (i.e., operating budget) was to be executed. Corollarly concerns were centered on the quantity and adequacy of guidance provided by major claimants to activity commanders and the general adherence of shore commands to budget execution guidance provided by such higher authority. In other words, how does the budget execution process really unfold at the activity level?

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[2]Extracted from comments made by Mr. Clyde O. Glaister, Director for Program and Financial Control, Office of the Secretary of Defense (Comptroller) during a presentation to the Naval Postgraduate School Chapter of the American Society of Military Comptrollers (ASMC) at Monterey, California on 29 August 1980.

Admittedly, the O&M,N Appropriation structure is complex and not easily digested in aggregate form. Even restricting the area of concern to direct funds as opposed to reimburseable funds, under the O&M,N Appropriation at Navy shore commands is a huge undertaking for a single thesis. The intent, however, is to attempt to review actual practices and procedures for budget execution, draw conclusions from what is discovered, and make recommendations for improvements (if considered substantiated by the research results) as well as further research initiatives.

Morton (1977), in reviewing the Naval Shore Establishment, states: "A few commanding officers have a fundamental inability to regard appropriated funds as money. They think of command as something entrusted to them as a reward for long and faithful service, rather than as a great responsibility, a charge to manage (and conserve) public resources. Our tendency to manage everything as a system has resulted in many cases, in organizational constipation: inability either to digest or eliminate the mass of data produced. ... Unfortunately, many of the systems have never proven themselves to save money or improve effectiveness. What they have done is become institutionalized and develop a clientele." [35: pg 300].

Informal interviews with various comptrollers in the field yield myriads of slogans and horror stories relating to the unending problems and inaccuracies in the area of budget execution. Alternatively, General David Jones (then Chief of

Staff, USAF), in addressing comptrollers at an American Society of Military Comptrollers (ASMC) symposium in 1975, praised the participants by stating "you are doing a great job. When you think of a budget close to $100 billion in the Department of Defense, it is amazing that we make as few mistakes as we do and I'm proud to be a part of that great effort." [23: pg 7]. The true status of budget execution procedures in the Navy more than likely lies in between these extremes and the effort of this thesis will be to push toward more clearly defining this point.

C. METHODOLOGY

Numerous academic documents and governmental (particularly the DON) directives were studied to provide a core of information on the concepts of management control/budget execution as well as a basic knowledge on the intricacies of the DON system for execution of the O&M,N Appropriation at Navy shore activities. With this nucleus of information, a questionnaire was developed which addressed itself to the key elements of management control as related to budget execution. Following a format similar to that utilized by Pomerantz, et. al. (1976), survey questions were formed which were considered to be both meaningful and explicit. Primarily dichotomous responses were solicited in order to ease the administrative burden on respondents.

The survey was sent to the comptrollers of a judgemental sample of 140 Navy shore activities. Of the 140 surveys sent

out, 22 were really not applicable because the activities were predominately funded by the Navy Industrial Fund (NIF). Of the remaining 118 surveys, 49 were returned for a response rate of 41.5%.

The sample selected reflected a wide variety of type activities and is considered to be representative, in aggregate form, of the majority of shore commands which have responsibility for control of O&M,N monies. Visits were made to some shore commands to gain first-hand knowledge of budget execution practices. Telephone interviews were also conducted to supplement the information obtained from the questionnaire. As the majority of the research concerned with this thesis was accomplished toward the end of Fiscal Year 1980, travel funding restrictions prevented extensive travel for on-site review of procedures.

The survey/questionnaire methodology was chosen as the predominant research approach due to its appeal as a way of efficiently reaching a broad spectrum of activities in a short time span and within limited funding resources. It is recognized that the questionnaire approach is fraught with the dangers of misinterpretation, for example, caused by possible 'massaging' of responses to have a command's control system look better than it is, or delegation of the task of responding to other than the comptroller. These disadvantages all bespeak, however, a negative impression of the professionalism of field activity comptrollers and are of questionable

validity. These possible problems notwithstanding, the questionnaire was considered to be a very valid, well-conceived starting point for pursuing the thesis objective of studying the actual budget execution status at shore commands.

D. THESIS ORGANIZATION

Chapter I - Introduction.

Chapter II - A Management Control Model for Budget Execution in Non-profit Organizations. This chapter synthesized a management control model which incorporates all necessary elements of the budget execution process. The model, which will be utilized to make comparisons to the actual systems in effect at Navy shore activities, is based on the review of management literature, particularly dealing with management control in non-profit organizations.

Chapter III - The Navy Budget System. This chapter provides an overview of the Navy's budget execution system from the Authorization Bill to final expenditure and audit of funds. Particular emphasis is placed on management control practices and procedures as related to the execution of the O&M,N Appropriation at Navy shore commands.

Chapter IV - Budget Execution Survey and Results. This chapter provides further detail on the development of the questionnaire and includes a copy thereof. Results of the survey are provided and an analysis of significant points presented.

Chapter V - Conclusions and Recommendations. Based on the results reported in Chapter IV, conclusions are drawn concerning the 'status' of budget execution practices in the field. Comparisons are made with the model iterated in Chapter II, and recommendations for system improvements, as well as continued research, are made.

E. OVERVIEW

Hale and Douglass (1977) wrote: "Political scientists, hypnotized until recently by the routines of budget preparation and review, ignored budget execution, that is, the actual spending of public funds. Despite the fact that budgeting is a continuous process involving daily decisions, many political scientists have viewed it as the discrete or oneshot phenomenon of a legislative appropriation. Yet the budget process does not terminate with the legislature's last rumbling. The passage of an appropriation bill actually signals the start of another, more complex round of games." [20: pg 488].

This author was intrigued by the possible ramifications of these games, especially if the rules were dusted off and more closely reviewed. The research attendant to this thesis was undertaken to satisfy what was perceived as a need to determine exactly what the score is in the game of budget execution.

II. A MANAGEMENT CONTROL MODEL FOR BUDGET EXECUTION IN NONPROFIT ORGANIZATIONS

A. INTRODUCTION

This chapter will discuss control in general, management control in detail, and the budget execution process within the overall management control concept. Comparisons will be drawn between profit-oriented and nonprofit-oriented control systems. Next, many aspects of the management control and budget execution functions will be presented. A model will then be introduced and developed for a management control system which embodies all the salient features of 'good management practice.' The chapter will conclude with comments regarding the utilization of the model for management control and budget execution purposes at Navy shore commands.

B. THE NATURE OF MANAGEMENT CONTROL

Koontz and O'Donnell (1972) state that "the managerial function of controlling is the measurement and correction of the performance of activities of subordinates in order to make sure that enterprise objectives and the plans devised to attain them are being accomplished. It is thus the function whereby every manager, from president (of a firm) to foreman, makes sure that what is done is what is intended." [25: pg 582]. Borst and Montana (1977) put it more succinctly by noting that "controlling, simply stated, answers the question 'Did we achieve what we set out to?' - 'Were the objectives met?"

[8: pg 3]. To understand the mechanics of management control, a basic understanding of the control process in general is considered by the author to be advantageous.

1. The Basics of Control

"A control system is a system whose purpose is to maintain a desired state or condition. Any control system has at least four elements: 1) a measuring device which detects what is happening in the parameter being controlled, that is, a detector. 2) A device for assessing the significance of what is happening, usually by comparing information on what is 'actually happening' with some standard or expectation of what 'should be happening', that is, a selector. 3) A device for altering behavior if the need for doing so is indicated, that is, a effector and 4) A means for communicating information among these devices." [5: pg 3-4]. This is shown diagramatically in Exhibit 2-1.

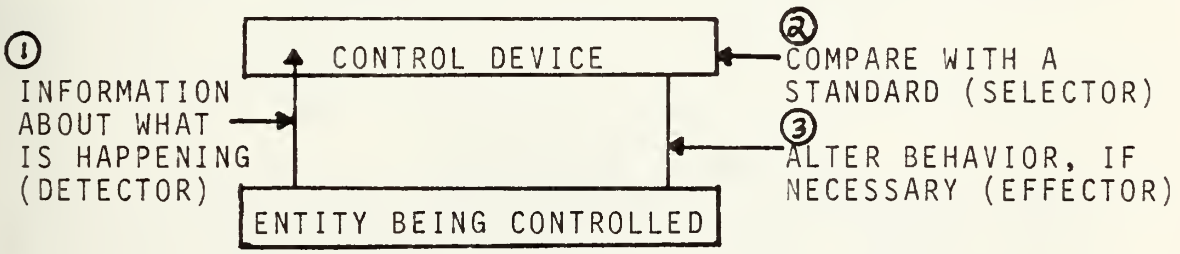


Exhibit 2-1 [5: pg 4]

Koontz and O'Donnell, in describing the basic control process, iterate three steps: establishing standards, measuring performance against these standards and correcting

deviations from standards and plans. [25: pg 583]. Tricker (1976) notes that "the direct form of control involves monitoring an ongoing activity, identifying divergencies from the required performance and taking corrective action to bring the activity into line. It is a 'feedback' process." [50: pg 38]. He uses the model shown in Exhibit 2-2 to visualize a control system.

Tricker makes the important distinction that this form of control is mechanistic. He says "it does not feedback to the originally planned requirement; neither does it adapt as experience is acquired. It will strive solely to maintain the ongoing action in line with that planned." [50: pg 38-9]. Fayol's (1925) definition of control, from his classic work titled "General and Industrial Management," also fits this model: "To control means seeing that everything occurs in conformity with established rules and expressed commands." [3: pg 130].

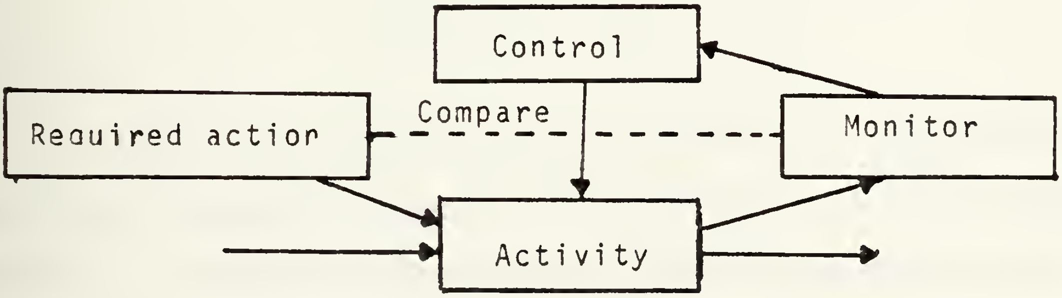
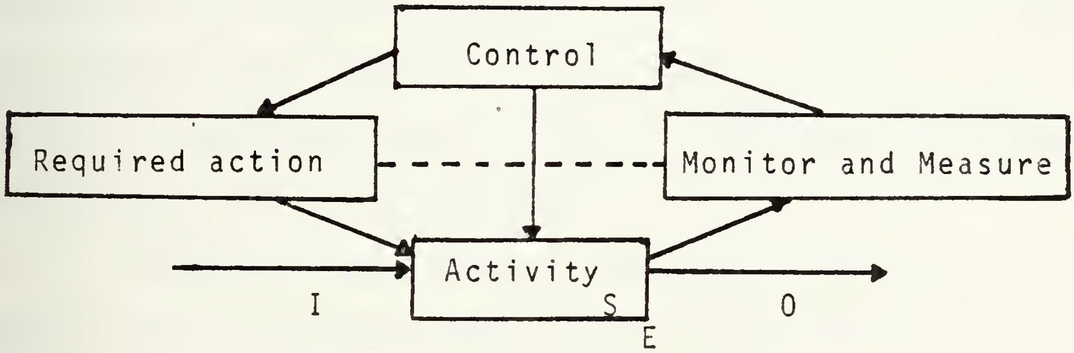


Exhibit 2-2 (50: pg 38]

Tricker goes further, however, in describing adaptive control as a process of higher order which can learn from experience and is influenced by changing circumstances. "In the adaptive control system, control is the process of determining required performance, monitoring the ongoing activity, identifying divergencies from plan, and taking corrective action either to bring the activity into line or changing the plan." [50: pg 39]. He expands his model, as shown in Exhibit 2-3, to accommodate the adaptive aspects.



I - System inputs
O - System outputs
S - Elements and activities considered to be part of the system
E - Elements and activities that are outside the system in the system environment

Exhibit 2-3 [50: pg 39]

This type of model can be pictured in understanding the steps listed by Webber (1979) in what he labels 'feedback control': communicating specific goals, measuring actual performance, reporting the actual performance to appropriate people, comparing actual performance with specific goals and deciding to do nothing, to correct behavior or to modify goals. [52: pg 298].

2. Control in Organizations

Anthony and Dearden (1976) note that control systems in organizations have the same essential elements as those shown in Exhibit 2-1, but explain that the control process in an organization is more complicated [5: pg 5]. They see control in an organization as involving a variety of functions including: "1) 'planning' what the organization should do, 2) 'coordinating' the activities of the several parts of the organization, 3) 'communicating' information, 4) 'evaluating' information and deciding what, if any, action should be taken, 5) 'influencing' people to change their behavior, and 6) 'processing information' that is used in the other functions." [5: pg 6-7]. Enter the manager!

Anthony (1965) defines management control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives." [3: pg 27]. Borst and Montana write the function of the control process is to ensure effective and efficient use of resources. "Controlling might include such activities as designing work plans and milestone charts, reviewing progress, scheduling and performance appraisal. The results of each of these activities are then available for use as a link in terms of evaluation and feedback to the planning element of the management process." [8: pg 3]

Morrisey (1976) simply notes that "managerial controlling has 'only one reason for its existence - to alert us when

we are about to get into trouble, in sufficient time to take the necessary corrective action.' If we never needed to take corrective action, we would not need controlling as a managerial function." [34: pg 145].

Maciariello (1978) claims management control functions including planning performance, staffing, decision making, appraising performance, and motivating behavior toward the achievement of organizational goals are carried out with respect to ongoing operations. "Unlike policy formulation, which is performed at irregular intervals and is nonrepetitive, the management-control process is regular and repetitive in nature. Unlike administrative activities, management control activities require managerial discretion." [29: pg 5]. Sherwin (1959) sees "the essence of control is action which adjusts operations to predetermined standards, and its basis is information in the hands of managers." [44: pg 423]. He goes on to say "information reaching a manager gives him the opportunity for corrective action and is his basis for control. He cannot exercise control without such information. And he cannot do a complete job of managing without controlling." [44: pg 423].

In discussing the meaning of control, Sherwin also makes the point that the understanding of management control is quite important: "Indeed, when management control is not understood, good management is a very improbable result. This is especially true when ... control is identified with management, or is confused with certain devices of management, such

as objectives, plans ... procedures, and the like. The manager who believes managing and controlling are the same thing has wasted one word and needs a second to be invented. And one who believes he has provided for control when he has established objectives, plans, policies, organization charts, and so forth, has made himself vulnerable to really serious consequences. A clear understanding of control is therefore indispensable in an effective manager." [44: pg 422].

Deverell (1966) has similar thoughts when discussing the function of control:

> The course of events is that planning establishes a general framework which in its turn is filled in by operating instructions. Information is collected, and arranged so as to give a comprehensive picture of the situation. Possible alternatives are weighed and a choice is made. The process of control then sees how the plans are working out, with a view to modifications if they become necessary. It is not external to the working of the organization but an integral part, providing a regulator, although it is not automatic as a governor on a machine is automatic - control has to be exercised. [12: pg 190]

The Anthony and Deardon definition of management control earlier cited falls within the planning and control activities portion of an overall organizational classification scheme pictured in Exhibit 2-4. They describe a management control system as consisting of a process and a structure. "The process is a set of actions that take place, and the structure is the organizational arrangements and information constructs that facilitate the process."[5: pg 8]. The contrasts between management control and the other two planning and control activities included in Exhibit 2-4 (strategic planning and

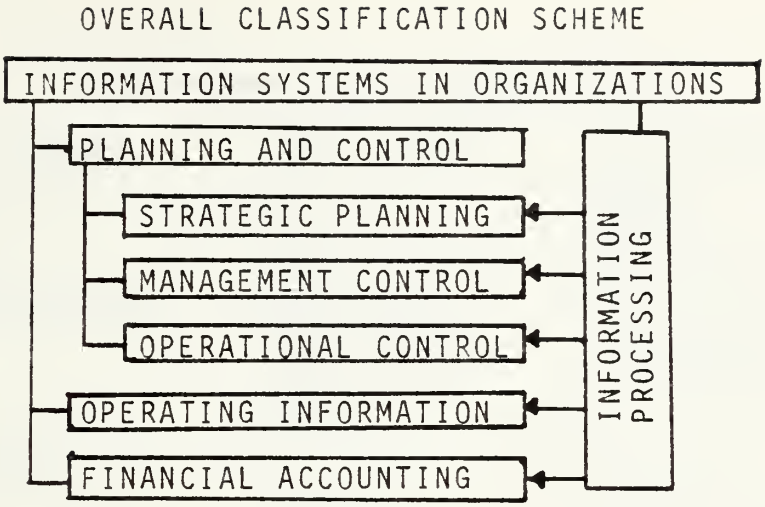


Exhibit 2-4 [5: pg 7]

and operational control) can best be elucidated by reference to Exhibits 2-5 and 2-6.

SOME DISTINCTIONS BETWEEN STRATEGIC PLANNING AND MANAGEMENT CONTROL

Characteristic	*Strategic Planning*	*Management Control*
Focus of plans	On one aspect at a time	On whole organization
Complexities	Many variables	Less complex
Degree of structure	Unstructured and irregular; each problem different	Rhythmic; prescribed procedures
Nature of information	Tailor-made for the problem; more external and predictive; less accurate	Integrated; more internal and historical; more accurate
Communication of information	Relatively simple	Relatively difficult
Purpose of estimates	Show expected results	Lead to desired results
Persons primarily involved	Staff and top management	Line and top management
Number of persons involved	Small	Large
Mental activity	Creative; analytical	Administrative; persuasive
Source discipline	Economics	Social psychology
Planning and control	Planning dominant, but some control	Emphasis on both planning and control
Time horizon	Tends to be long	Tends to be short
End result	Policies and precedents	Action within policies and precedents
Appraisal of the job done	Extremely difficult	Much less difficult

Exhibit 2-5 (5: pg 13]

SOME DISTICTIONS BETWEEN MANAGEMENT CONTROL AND OPERATIONAL CONTROL

Characteristic	*Management Control*	*Operational Control*
Focus of activity	Whole operation	Single task or transaction
Judgment	Relatively much; subjective decisions	Relatively little; reliance on rules
Nature of structure	Psychological	Rational
Nature of information	Integrated; financial data throughout; approximations acceptable; future and historical	Tailor-made to the operation; often nonfinancial; precise; often in real time
Persons primarily involved	Management	Supervisors (or none)
Mental activity	Administrative; persuasive	Follow directions (or none)
Source discipline	Social psychology	Economics; physical sciences
Time horizon	Weeks, months, years	Day-to-day
Type of costs	Discretionary	Engineered

Exhibit 2-6 [5: pg 18]

The cross-walk between planning and control has been stressed by many authors. Boyce (1968) highlights this point in his discussion of control: "Control, therefore, must first involve the process of receiving key information on the activities of each section of the undertaking and measuring the results against the standards and tasks upon which the overall and sectional plans are based. From a management viewpoint it is important to consider planning and control as complementary, and the one can hardly be dealt with without taking into account the requirements of the other." [9: pg 6] Borst and Montana model the management process very basically as a dynamic process as depicted in Exhibit 2-7. The comments of this author in Chapter I which addressed the budget planning-

execution crosswalk also illustrate the planning/control interrelationship.

Exhibit 2-7 [8: pg 3]

Koontz and O'Donnell make the point that although the principles of control are universal, individual systems require special design. They go on to list ten requirements of adequate controls: controls must reflect the nature and needs of the activity, controls should report deviations promptly, controls should be forward looking (detect deviation from plans early enough to permit effective corrective action), controls should point up exceptions at critical points, controls should be objective, controls should be flexible, controls should reflect the organizational pattern, controls should be economical, controls should be understandable and controls should lead to corrective action. [25: pg 586-90]. Allen (1964) identifies two basic principles which apply to control in all of its aspects:

Principle of Least Cause - In any group of occurrences, a small number of causes will tend to give rise to the largest proportion of results.

Principle of Point of Control - The greatest potential for control tends to exist at the point where action takes place. [2: pg 318-19]

Human aspects pervade all features of management control in organizations. In considering the structure versus process aspects of management control, Anthony and Dearden

recognize this when they state: "The formal management control 'system' is only a part of the management control 'process', actually a relatively unimportant part. The system can help motivate the manager to make decisions that are in the best interests of the organization, and the system can provide information that aids the manager in making these decisions; but many other stimuli are involved in motivating the manager, and good information does not automatically produce good decisions. The success or failure of the management control process depends on the personal characteristics of the manager - his judgement, his knowledge, his ability to influence others." [5: pg 17].

Webber (1979) also recognizes another human side of control systems when discussing resentment and rejection. He states that people sometimes reject control systems because: goals are contradictory, results depend on factors not under their control, results and evaluations are unpredictable, goals are unrealistic and unattainable and the control system is incompatible with the leadership climate. [52: pg 311]. However, Stokes (1968) states: "If set up and used properly, controls aid or facilitate the accomplishment of desired results. They are check points against which progress can be measured. Far from being restrictive, controls are the means of helping to achieve constructive and desired results. They are the means of concentrating energies on goals or standards, and thus they reduce wasteful deviations in performing work. [47: pg 21]. This seems to eliminate the resentment addressed by Webber.

3. Profit vs. Nonprofit Considerations

Management control is exercised in both profit-oriented and nonprofit organizations. Anthony and Herzlinger (1980) claim that the line between the two types of organizations is somewhat fuzzy, and define a nonprofit organization as one "whose goal is something other than earning a profit for its owners. Usually its goal is to provide services." [6: pg 31]. The definition emphasizes a basic distinction between the two. "In a profit-oriented company, decisions made by management are intended to increase (or at least maintain) profits, and success is measured, to a significant degree, by the amount of profits that these organizations earn. ... By contrast, in nonprofit organizations, decisions made by management are intended to result in providing the best possible service with the available resources; and success is measured primarily by how much service the organizations provide and by how well these services are rendered." [6: pg 31]. Anthony and Herzlinger explain that service is a more vague, less measurable concept than profit and it is therefore more difficult to measure performance in a nonprofit organization. Nonetheless, an organization must be controlled; thus the "actual problem is to find out what management control policies and practices are useful, despite the limitations." [6: pg 32].

McConkey (1975) shares this viewpoint of a need for effective management control, but couches his opinion in stronger terms: "Management of nonprofit organizations has no

landed right to be ineffective, to ignore managerial productivity, to ignore the 'profit' motive, or to fail to evaluate new or revised approaches to management. Nor should the managers of these organizations be immune from strict accountability to those they serve, those upon whom they depend for their funds and support." [31: pg 2].

He continues: "Nonprofit organizations, too, must earn a 'profit' by operating with as much efficiency and effectiveness as possible to achieve the right priorities. While the nature of their profits may bear different labels, the profit motive must be present if they are to avoid economically and socially wasteful practices that raise major questions about their reason for being." [31: pg 2]. Drucker (1976) also expresses a similar thought: "The resources of public service institutions are people, and the outputs are rarely 'things.' Therefore, direction toward meaningful results is not inherent in the work or in the process itself ... Public service institutions, in other words, particularly need objectives and concentration on goals and results - that is management." [13: pg 13].

A distinction in the budget execution area of management control is expressed by a study group of the Royal Institute of Public Administration in Great Britain. They see private enterprises as responding to consumer patterns of demand and view budgets as being used primarily as forecasts and yardsticks: "management cannot normally treat their budgets as rigid plans

or authorizations to produce or spend a given amount. They must be constantly ready to modify their policy should demand or costs turn out to be different from the original estimates." [15: pg 22]. In contrast, for public-oriented organizations, they see a budget as "a plan of activity which, after approval, becomes an authorization to spend certain sums or employ certain quantities of manpower and other resources for specified purposes. Demand is not the effective limitating factor." [15: pg 22-23]. The study group does recognize that such a vivid distinction between utilization of budgets of private versus public organizations is not really accurate; that the public sector does also use budgets to forecast and as a yardstick. But their point is useful in understanding the differences in "the nature of their activities and the principles on which they operate." [15: pg 25].

Anthony and Herzlinger list nine characteristics of nonprofit organizations that affect the management control process in those organizations. They explain that each of them exists in many profit-oriented organizations; however, "these characteristics are important in the 'typical' nonprofit organization," but only in the 'exceptional' profit-oriented organizations. [6: pg 35]. The author considers these characteristics worthy of brief explanation herein:

a. Absence of a profit measure

The profit measure provides a satisfactory, single overall measure of performance in a profit-oriented firm. "The absence of.... an overall measure of performance that is

comparable to the profit measure is the most serious management control problem in a nonprofit organization." [6: pg 35]. The consequences of absence of the profit measure are:

1) "No single criterion. Since a nonprofit organization has multiple objectives and since these objectives usually cannot be expressed in quantitative terms, there often is no clear-cut objective function that can be used in analyzing proposed alternative courses of action." [6: pg 43]

2) Difficulty in relating costs and benefits.

3) Difficulty of measuring performance. This will be addressed in greater detail later in this chapter.

4) Difficulty in decentralization of decisions. "If an organization has multiple goals and no good way of measuring performance in attaining these goals, it cannot delegate important decisions to lower level managers to the same extent that is feasible in profit-oriented organizations." [6: pg 41].

5) Difficulty in comparison among units. "Nonprofit organizations can be compared with one another only if they have similar function" [6: pg 41] and, therefore, measures of performance.

b. Tendency to be service organizations

"Service organizations tend to be labor intensive"; "it is more difficult to control the work of a labor-intensive organization than that of an operation whose work flow is paced or dominated by machinery." [6: pg 42]. Anthony and Herzlinger

also make the point that it is far more difficult to satisfactorily judge both the quantity and quality of services rendered. [6: pg 42].

c. Constraints on goals and strategies

Many nonprofit organizations must provide services as directed by outside agencies, rather than as decided by internal management. [6: pg 42-43].

d. Less dependence on 'clients' for financial support

"Competition provides a powerful incentive to use resources wisely. If a firm in a competitive industry permits its costs to get out of control, its product line to become out of fashion, or its quality to decrease, its profits will decline. A public-supported organization has no such automatic danger signal." [6: pg 44].

e. The dominance of professionals

"In a professional organization, promotion is geared to the criteria established by the profession and tends to be a function of time. These criteria may not place much emphasis on efficiency and effectiveness." [6: pg 46].

f. Differences in governance

"In many nonprofit organizations there is no single outside group to which the management is clearly accountable. Even in those organizations in which such a group exists, there may not be a similarity between the objectives of the management and those of the outside group that is close to the similarity that exists when both groups are essentially interested in profits." [6: pg 49].

g. Differences in top management

Anthony and Herzlinger explain that profit-oriented firms have one boss and this is not necessarily the case in the nonprofit area. Additionally, they indicate that compensation of top management in public-supported organizations is relatively lower than in profit-oriented organizations. [6: pg 50].

h. Importance of political influences

"Many nonprofit organizations are political; that is, they are responsible to the electorate or to a legislative body." [6: pg 51]. This fact, Anthony and Herzlinger explain, can lead to such consequences as public visibility, multiple external pressures and legislative restrictions. They also make the point that "in some public organizations top management tends to change rapidly because of administration changes, political shifts, military orders ... This rapid turnover results in short-run plans and programs which produce quickly visible results, rather than longer range programs." [6: pg 52].

i. A tradition of inadequate management controls

Anthony (1977) explains: "Nonprofit organizations do differ from profit-oriented companies, but they also have much in common. They both have objectives, they both make decisions about the use of resources to accomplish these objectives, and in both cases an important management function is to see to it that the organization uses these resources efficiently and effectively. Business companies have developed a number of valuable tools for aiding management in this process: budgets,

responsibility centers, cost analyses, standard costs, analyses of variances, management by objectives, linear programming, probability analysis - I could extend this list indefinitely. Most of these can be used, but nonprofit organizations are slow to do so." [4: pg 13]. Anthony and Herzlinger (1980), in particularly referring to governmental organizations, comment on the fact that the Congress has "become thoroughly accustomed to a certain budget format and is reluctant to shift to a new format; because of the importance of the budget, this affects the whole management control system." [6: pg 57]. They also reveal that organizations "are not anxious that outside agencies have access to new and better information." [6: pg 57].

Acknowledging the differing characteristics between profit-oriented and nonprofit organizations, most of the literature reviewed by this author concurred that management control is essential to achieving organizational goals. McConkey sums it up by saying: "Nonprofit organizations are not unique. Like all organizations, they have an objective to achieve; namely, to provide the highest quality product or service consistent with the funds available. Assets have been entrusted to them - people, capital, and plant and equipment. They serve in a stewardship capacity to those upon whom they depend for their continued existence. Managers of these organizations have no inherent rights to waste any of these assets or to violate their stewardship. These managers, too, must be held accountable for results." [31: pg 6].

4. Budget Execution Position in Relation to the Overall Management Control Scheme

Budget execution, as indicated in Chapter I, is a subject which the author considers inseparable from the management control structure and process within a specific single organization. Maciariello seems to echo this thought when he declares: "the operating budget is the cornerstone of the management control process." [29: pg 8]. Similarly, Schick (1964), in quoting Professor James W. Martin, reports "the most important area of decision-making is the area of budget execution, not the area of presentation of estimates or even the area of legislative action." [43: pg 97]. Although the term 'decision-making' is used, it is clear from the complete context of Schick's review of state budgetary practices, that he is referring to the control process which is so closely associated with the budgetary process, from start to finish.

Wildavsky (1964), in viewing a budget as a contract, states: "To the extent that a budget is carried out, however, it imposes a set of mutual obligations and controls upon the contracting parties." [54: pg 2]. Anthony and Herzlinger also iterate the contractual aspect of budgeting when they report: "The agreed upon budget is a bilateral commitment. Responsibility center [3] managers commit themselves to produce the planned output with the agreed amount of resources, and their

---

[3] As defined by Anthony and Herzlinger, a 'responsibility center' is a unit headed by a manager who has authority to take certain actions and who is held responsible for them [6: pg 80].

superiors commit themselves to agreeing that such performance is satisfactory. Both commitments are subject to the qualification 'unless circumstances change significantly'." [6: pg 16]. In this light the budget execution process can be seen as pursuing organizational objectives within pre-established guidelines and limitations unless a situation develops which signals a need to review or revamp those guidelines and limitations.

This aspect of budget execution correlates with the purpose of control in management which Boyce defines as "the measuring and checking of results against plans and standards, and the introduction of corrective action with a minimum of delay once deviation is observed." [9: pg 9]. Tosi (1974) also expresses a similar link when he declares: "In short, the budget represents a constraint on decision making imposed by others. This constraint serves the specific purpose of managerial control." [49: pg 53].

Budget execution is a means of exercising over-all control just as it is a means of exercising programmatic or departmental control. Koontz and O'Donnell recognize this when they point out that "any responsible manager must have some way of knowing what his goal achievement has cost in terms of resources. Therefore, in all forms of enterprise, control of over-all performance is likely to be financial. Moreover, financial analyses furnish an excellent 'window' through which accomplishment in nonfinancial areas can be

seen." [25: pg 637]. Welsch (1957) expounds the same idea: "Budgetary control thus makes it possible for top management to feel the pulse of the enterprise throughout the year; to know specifically where there is satisfactory or unsatisfactory progress toward the over-all company objective." [53: pg 11].

Bacon (1970) speaks more to the day-to-day aspects of budgetary control: "Once the budget period begins, the function of budgeting becomes one of exercising control over operations as they progress. Control means making certain that actual performance is going according to plan." [7: pg 29].

The human aspects, discussed earlier in this chapter, also must be considered in the budget execution/control relationship. Emch (1959) explicates: "The budget is a primary means of assuring that actions conform to basic plans. It is a device for measuring the actions taken and for determining the actions required. But it does not, 'of itself', control." [16: pg 437]. Tosi seems to parallel this thought when he stresses that "budgets and most managerial controls do not offer any guidance on how to do something. Rather, they simply specify the approved level of resources to be used. Effectiveness depends both on the quantity of resources and how they are used." [49: pg 62]. Lynch (1979) sums up the human involvement necessity when he declares: "Budget execution also depends on a qualified budget staff and a positive attitude toward the concept of public trust. If the budget staff is unaware of the needs of budget execution, then serious management problems are likely to occur." [28: pg 145].

The review of numerous books on the subjects of both management control and budget execution clearly demonstrated to the author that both concepts have as their foundation the same basic managerial tenets which characterize any management function. The many specific aspects of management control and budget execution will therefore be examined concurrently as the author contends they are applicable to both subjects. The next section will describe a significant number of these aspects. These descriptions will form a basis for the subsequent section of the chapter which lays out a model deemed appropriate by the author to be used in fulfilling budget execution responsibilities within nonprofit organizations.

C. ASPECTS OF THE MANAGEMENT CONTROL/BUDGET EXECUTION FUNCTION

Management literature abounds with explanations of the many aspects of management control. Distillation of this voluminous amount of useful information into a concise, comprehensive overview, in the opinion of this author, presents a monumental task. This notwithstanding, 15 aspects of the management control/budget execution concept will be presented. The author contends, based on the repeated presence of these aspects in the management literature reviewed, that they are satisfactorily inclusive of the major aspects found in many academic undertakings covering the management control function. The 15 aspects which are presented were additionally considered in the selection of the model presented in the next section and in the development of the questionnaire which is presented in Chapter IV.

1. Span of Control

The span of control concept relates to the number of managerial relationships, whether relating to individuals or organizational entities, for which a manager has direct supervisory responsibility. Sherwin (1959) notes that "some managers are burdened with a persistent sense of insecurity which undermines their self-confidence and ability to do their job, because they are unable to keep track of all the details under their management." [44: pg 428]. Similarly, Boyce declares "it is no longer possible for the chief executive to manage every aspect of the business himself. He must delegate authority and confine himself to directing and evaluating the achievements of other executives; he must rely on these executives to manage the details of the business in his behalf." [9: pg 17]. Both authors are addressing a portion of the concept of span of control.

In his treastise on the management profession, Allen (1964) states two principles that relate to a manager's span of control:

> Principle of Maximum Span - The more people each manager can effectively manage, the smaller the total number required to attain given end results. [2: pg 179].
>
> Principle of Minimum Levels - The fewer the levels within the limits of maximum span, the greater the potential effectiveness of the people involved. [2: pg 181].

He claims that every manager should be given the maximum number of people he can manage effectively and lists five factors

which are important in determining an individual manager's proper span: diversity of the work, dispersion of the working units, complexity of the work, the volume of the work and the manager's ability to delegate. [2: pg 180]. He concludes that the span "can best be determined by requiring each manager to maintain a continuing study of his own organization. [2: pg 179].

Webber (1979) summarizes his view on the appropriate span of control by stating: "In general, the acceptable span of control decreases with: 1) less predictable work demands, 2) greater discretion allowed subordinates, 3) greater job responsibility - as measured by the length of time between a decision and its review or results, 4) less measurability of results and 5) greater task interdependence among subordinates." [52: pg 357]. Koontz and O'Donnell report that the "dominant current view is to look for the causes of limited span in individual situations, rather than assume that there is a widely applicable numerical limit. [25: pg 251].

House and Miner (1969), following the review of research conducted on the subject of span of control, conclude:

> The implications for the span of control seem to be that (1) under most circumstances the optimal span is likely to be in the range of 5 through 10; (2) the larger spans, say 8 through 10, are most appropriate at the highest, policy-making levels of an organization, where greater resources for diversified problem-solving appear to be needed (although diversified problem-solving without larger spans may well be possible); (3) the breadth of effective spans of first line supervisors is contingent on the technology of the organization; and (4) in prescribing the span of control for specific situations, consideration must be given to a host of local factors

> such as desirability of high group cohesiveness, the performance demands of the task, the degree of stress in the environment, task interdependencies, the need for member satisfaction, and the leadership skills available to the organization. [22: pg 461-2]

Following a fairly comprehensive review of span of control (they call it 'span of management') concepts and background information, Koontz and O'Donnell iterate what they believe to be the correct principle of span of management: "that there is a limit in each managerial position to the number of persons an individual can effectively manage, but the exact number in each case will vary in accordance with the effect of underlying variables and their impact on the time requirements of effective managing." [25: pg 263]. A typical list of the underlying variables referred to in the above principle were extrapolated from a 1966 Lockheed Missiles and Space Company study by Koontz and O'Donnell and are listed below:

a. Similarity of functions. This factor referred to the degree to which functions performed by the various components or personnel reporting to a manager were alike or different.

b. Geographic contiguity. This factor referred to the physical locations of units of personnel reporting to a superior.

c. Complexity of functions. This factor referred to the nature of the task done and the department managed.

d. Direction and control. This factor referred to the nature of personnel reporting to a superior, the amount of training required, the extent to which authority could be delegated, and the personal attention needed.

e. Coordination. This factor was related to time requirements of keeping an organizational unit keyed in with other divisional or companywide activities.

f. Planning. This factor was designed to reflect the importance, complexity, and time requirements of the planning functions of the manager and his organizational unit. [25: pg 260].

2. Goals and Objectives

It is the author's purpose to highlight some typical comments by various writers on the subject of goals and objectives. Maciariello, in discussing the structure and process of management control, writes: "A management-control system (MCS) has the purpose of achieving an organization's objectives; as such it is a requirement for all purposeful organizations. To guide the activities of an organization, a MCS must contain detailed objectives and goals. 'Objectives' are the overall endless purposes of an organization; 'goals' are specific, short-term, predominately quantitative derivatives of objectives. Goals may be subdivided and assigned to various parts of the organization, thus serving as means for the attainment of overall organizational objectives." [29: pg 3]. Koontz and O'Donnell, on the other hand, do not make a clear distinction between goals and objectives. They consider both to be types of plans and state that "objectives, or goals, are the ends toward which activity is aimed. They represent not only the end point of planning, but the end toward which organizing, staffing, directing, and controlling (with planning, the five functions of management described in their classic text) are

aimed." [4] [25: pg 116]. Anthony and Herzlinger also highlight the end result orientation when they claim that "a statement of objectives is a key element in a management control system because an organization's effectiveness can be measured only if actual outputs are related to objectives." [6:pg 230]. They expand this thought by stressing the necessity for both measurability and clarity of objectives.

The definitional intent of these authors coincides with Allen's "Principle of the Objective," which states that "organizational efficiency tends to increase as the work performed is directed toward the objectives desired." [2: pg 176]. Mee (1959) states this principle in a slightly different way: "Before initiating any course of action, the objectives in view must be clearly determined, understood and stated." [32: pg 290]. McConkey defines an objective in a similar way: "An objective is a specific description of an end result to be achieved. It should tell 'what' (the end result), 'when' (a target date or a target period) and 'who' (who is accountable for the objective)." [31: pg 53].

In his book on Management by Objectives (MBO), Albrecht (1978) describes an objective as any kind of desired end condition, however vaguely or specifically it can be stated. In this way he maintains that a manager "can designate as an objective anything from a broadly stated 'want' to a very

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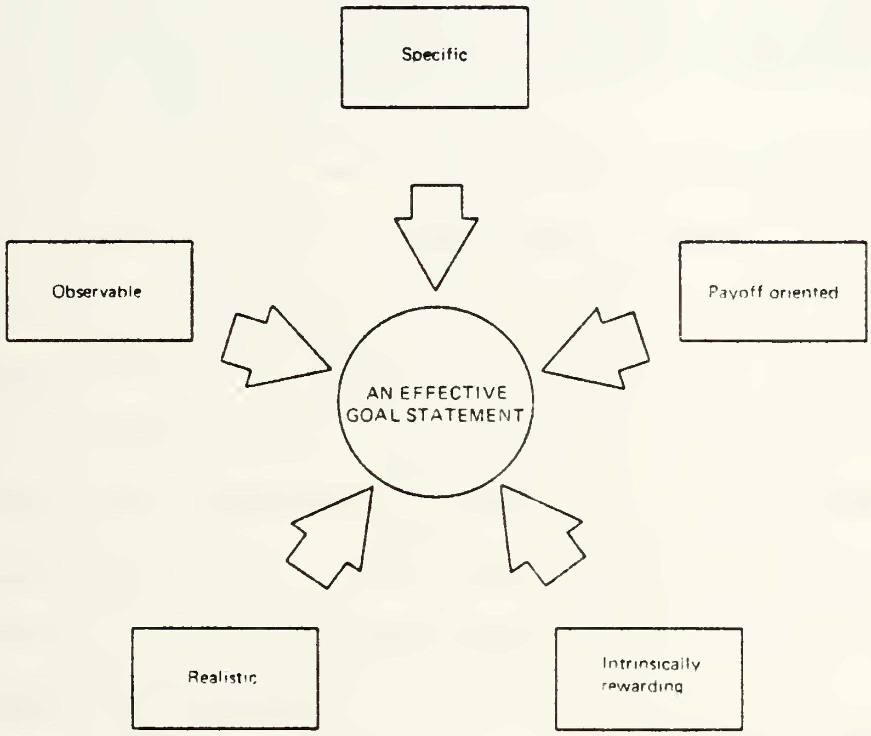
[4] Parenthetical comment added by this author.

specifically delineated and measurable performance target." [1: pg 73]. He considers a "goal to mean any objective which we can state so specifically, so concretely, and so unambiguously that virtually anyone will be able to know when it has been achieved." [1: pg 73]. He goes on to describe the characteristics of an effective goal statement, which are diagramatically represented in Exhibit 2-8.



Characteristics of an Effective Goal Statement

Exhibit 2-8 [1: pg 77]

Some pitfalls in setting objectives are also listed by Albrecht. Briefly stated, they are: wrong scope, too 'fuzzy' or vague, setting goals too high, stating activities instead of goals, setting too many little goals of minor importance instead of a few major ones and trying to impose

goals on others instead of having the responsible individual 'own' the goal. [1: pg 87-8].

Establishing objectives is stressed by most authors as a vital process. Koontz and O'Donnell express a valid point in this regard:

> "Enterprise objectives should control the nature of all major plans, which, by reflecting these objectives, define the objectives of the major departments. Major department objectives, in turn, control the objectives of subordinate departments, and so on down the line. The objectives of lesser departments will be better framed, however, if subdivision managers understand the overall enterprise objectives and the implied derivative goals." [25: pg 125].

The relationship between goals and performance was examined by Tosi (1974). In reporting on research efforts by Turcotte (1974), Locke (1968) and Carroll and Tosi (1973), he asserts that there is a correlation between hard goals (i.e., difficult to achieve) and high performance. He quotes Turcotte as concluding that "demanding objectives, quantitatively expressed and understood ... were essential foundations of the effectiveness of the high performing agency." [49, pg 59].

3. <u>Resource Allocation</u>

"Given an analysis of objectives," Webber writes, "any management must ask itself: Are we allocating time and resources in accordance with our defined priorities? Are we allocating sufficient time and resources to more deferrable, but still important objectives?" [52: pg 275]. To answer these type of questions, a procedure or process needs to be delineated. Lynch (1979) recognized such a need when he states: "In order

to work smoothly as an organization and to avoid intercommunication difficulties, established procedures are needed to change work plans, schedules and use of funds. Those procedures should be designed to insure all factors are considered and all key people in and outside the organization are notified of the decision in a timely manner." [28: pg 145]. Additionally, Lynch explains that circumstances might arise where procedures must be short-circuited, but he claims this should be an infrequent occurrence if procedures are properly designed. His idea is that procedures should be as simple and effective as possible. [28: pg 145].

A possible approach to resource allocation involves utilization of a committee or board. The value of this approach is addressed by McConkey when he discusses "a general tendency in the non-profit sector to allocate funds to various units and managers without having first established and promoted good healthy competition for resources, which should always be limited - never unlimited." [31: pg 38]. He reports that one research unit of the DOD actually has five committee members on a resource allocation committee who head the units that are vying for the same resources. He sees such a situation as being quite beneficial. In fact, he claims: "It's a management truism that an organization is sick when it fails to establish competition for resources or has more resources than it knows how to utilize." [31: pg 39].

Utilization of a board or committee for resource allocation purposes, as it is true for other purposes, exposes

the organization to both the advantages and disadvantages of this organizational structure. Koontz and O'Donnell deal with the functioning of committees at some length. They view group deliberation and judgement as the primary advantage of committees. This is due to the stimulation that occurs from the oral interchange of ideas and the cross-examination of issues. This positive stimulation leads to the clarification of problems and the devleopment of new ideas. Other advantages are the avoidance of the fear of too much authority being vested in one person, the representation of all interested groups and the enhanced coordination of the planning and execution of programs. They also see as benefits the transmitting of information to all concerned parties simultaneously, the consolidation of authority for problem solving and the motivational gains brought on by participation. [25: pg 373-6].

Disadvantages are also explored by Koontz and O'Donnell. They include the high cost in time and money, the tendency for committees to compromise at the least common denominator of group agreement and the possibility for indecision because of the time required for deliberation and the discussion of peripheral subjects. Other disadvantages are the tendency of committees to be self-destructive due to an emerging leader, the non-existence of individual accountability for decisions and the possibility of a minority tyranny who will not agree unless their point is recognized. [25: pg 376-8].

A final aspect of resource allocation is explained by Salancik and Pfeffer (1974). In studying departmental power at the University of Illinois, they link the acquisition and utilization of power to resource allocation considerations. They empirically demonstrate that subunits in an organization acquire power to the extent that they provide resources critical to the organization. Further, they show that this power affects resource allocations within the organization as long as the resources in question are critical to the subunit and scarce within the organization. They claim that "power derived from acquiring resources is used to obtain more resources, which in turn can be employed to produce more power - the rich get richer." [40: pg 470].

4. Efficiency and Effectiveness

Efficiency is concerned with the amount of output produced for a given level of input. Effectiveness deals with the extent to which the output produced addresses the needs or solves the problem for which it is intended. [6: pg 5]. As Gissler (1972) puts it:

> A distinction was made between 'efficiency' and 'effectiveness'. The former, it was said, meant doing things better, while the latter meant doing right things better. [19:pg 843]

Yamada (1972) goes a little further and compares efficiency and effectiveness within the context of overall organizational goals and objectives. He writes:

> In examining the meaning of efficiency versus effectiveness, it is important to note that efficiency is concerned with productivity, unit cost, work measurement, and similar matters - it is concerned with how economically we get a job done. On the other hand, effectiveness, although concerned with efficiency,

> fundamentally addresses goals and objectives in getting a job done and whether accomplishment of the job has the desired impact on goals and objectives. Achieving the desired impact on goals and objectives is heavily influenced by two important factors: (1) the quality of the output produced, and (2) the timeliness of the services rendered. [55: pg 765]

Anthony and Herzlinger bring things into focus when they comment that "an organization unit should be 'both' efficient and also effective; it is not a matter of one or the other. Efficient managers are those who do whatever they do with the lowest consumption of resources; but if what they do (i.e., their output) is an inadequate contribution to the accomplishment of the organization's goals, they are ineffective." [6: pg 6].

Tosi speaks to the relationship of budget execution to organization effectiveness when he claims "that those who prepare a final budget believe that if managers live with it and meet the requirements set forth, then success, defined in terms of organization effectiveness, will be achieved. Therefore, the budget specifies at least one aspect of the path (what resources can be used and how much) to the goal (profitable and/or effective performance)." [49: pg 60].

5. Measurement of Output

Anthony and Herzlinger declare that output information is needed for two purposes: to measure efficiency and to measure effectiveness. [6: pg 227]. They visualize output measures as falling in three categories: results measures, process measures and social indicators. They define results measures

as "a measure of output expressed in terms that are supposedly related to an organization's objectives." [6: pg 232]. Ideally, the objective and the output measure are stated in the same terms. When this is not possible, a surrogate measure, representing the closest feasible way of measuring the accomplishment of an objective must be used. Results measures relate to the impact that the organization has on its clientele, its target group or the outside world as a whole. [6: pg 232].

Alternately, a process measure relates to an activity carried out by an organization. The essential difference is that the results measure is 'ends oriented' and the process measure is 'means oriented'. "An ends-oriented indicator is a direct measure of success in achieving an objective. A means-oriented indicator is a measure of what a responsibility center or an individual does." [6: pg 233]. Process measures are the easiest type of output measure to interpret and they measure efficiency, but not effectiveness. [6: pg 233]. Further, process measures can lead to ineffective performance if they are unrelated to results measures. [6: pg 233].

Finally, a social indicator is seen as "a broad measure of output which is significantly the result of the work of the organization." [6: pg 235]. Anthony and Herzlinger, however, do not view them as very useful to management control: "Social indicators are so nebulous, so difficult to obtain on a current basis, so little affected by external influences that they are of limited usefulness in day-to-day management. They are, however, useful in strategic planning." [6: pg 235].

Addressing other characteristics of output measures, Anthony and Herzlinger classify them as: subjective vs. objective, quantitative vs. nonquantitative, discrete (go/no go) vs. scaler and quality vs. quantity. [6: pg 237-42]. Of these characteristics, they devote the most attention to quality vs. quantity considerations. They claim "in a nonprofit organization, measures of quality tend to be more important than in a profit-oriented company because in a profit-oriented company the market mechanism provides an automatic check on quality." [6: pg 240]. They explain that there is "no such mechanism for consumer reaction to the output of many nonprofit organizations." [6: pg 241]. They are also quick to caution that "the absence of quality measures in management control systems may lead to a detrimental emphasis on quantity, for example, people being rapidly pushed through an education program." [6: pg 241].

Summarizing their thinking on output measurement, Anthony and Herzlinger present eight general propositions, listed below, which are relevant in selecting the output measures that are to be a part of the management control system:

a. Some measurement of output is usually better than none.
b. If feasible, relate output measures to measures available from outside sources.
c. Use measures that can be reported in a timely manner.
d. Develop different measures for different purposes.
e. Focus on important measures.
f. Don't report more information than is likely to be used.

g. If feasible, tie output measures to expense measures.
h. Don't give more credence to surrogates than is warranted. [6: pg 242-4]

6. Productivity

The definition of productivity or productivity measurement is not a subject of total agreement among managers, especially when dealing with service oriented or non-profit undertakings. The uncertainty and illusiveness of a widely accepted definition was demonstrated when a productivity symposium could not come to overall agreement on a singular definition:

> No simple definition of the term 'productivity' was officially agreed upon during the symposium. In general, the term was used to mean getting a 'bigger bang' out of each tax dollar - getting the same amount of work done by fewer people, or getting more work done by the same number of people, or simply 'doing what you're doing at less cost.' [19: pg 842]

This notwithstanding, a classic definition might be:

> Productivity measurement essentially means relating the amount of inputs of a service or product to the amount of output. [21: pg 777]

Another could be:

> Productivity is loosely interpreted to be the efficiency with which output is produced by the resources utilized. A measure of productivity is generally defined as the ratio relating output (goods and services) to one or more of the inputs (labor, capital, energy, etc.) which are associated with that output. [30: pg 748]

Harty's (1972) view on productivity measurement, although directed toward local government operations, is considered germane to other nonprofit organizations:

> Productivity measurements are important devices for letting a local government know its current status. They reveal, after action is taken, how successful it has been. Measurements can help to identify new

> procedures or approaches that are worth pursuing, and those that are not. Used in dealings with employees, they can provide a basis for incentive plans and the sharing of benefits of increased productivity. [21: pg 782-3]

He expands this line of thought, indicating that productivity measurement, hopefully, will be justifiable, in terms of the time and resources employed to accomplish it, by the fact that it significantly aids in improving productivity (efficiency and/or effectiveness depending upon the specific need being observed). Accurate measurement can greatly assist in: identifying problem areas and priorities for improvement efforts, determining progress toward goals or objectives and establishing and monitoring implementation of worker incentive programs. [21: pg 776]

A critical consideration in productivity measurement would seem to be the accuracy of the data inputed to computational formulas. Although on the surface this seems infallibly so, it is not necessarily the case. The need for precision in a productivity measurement depends partly on its purpose. If the manager is looking for trends or statistical variations over a large range of possible results, pinpoint accuracy could well overcomplicate a resolution process. Mark (1972), in exploring the usefulness of productivity data, addressed accuracy from the standpoint of viewing the deficiencies in the measurement process and concludes:

> Unquestionably, in some cases output and input data are so poor that measures of productivity may be quite meaningless. But in other instances, despite

> the data deficiencies, it may be possible to derive reasonably adequate indicators of productivity change. [30: pg 752]

Morris, Corbett and Usilaner (1972) indicate that overall, productivity measurement and analysis finds its greatest use in the area of raising questions. Changes in trends may have their roots in one or many underlying causes. Further, the cause-effect relationships in evidence could easily be used as a reflection of the competence or control possessed by specific supervisors and managers. Also, productivity measurement and analysis can serve as a key indicator of the relative worth of new innovations or management control systems. [33: pg 761].

As with every management technique, productivity measurement and analysis should not be regarded as a panacea. Although it can be a powerful device if properly developed and employed, misuse can easily occur. In discussing productivity indices, Morris, (et al.) state:

> Their (productivity indices) major worth seems to be in charting an organization's record of progress against its own past history - diagnosis of problems and forecasting and evaluating the results of planned management actions. [33: pg 762].

As was alluded to in the previous section, a principal difficulty in productivity measurement is in defining and measuring output. Because of this fact, Harty claims:

> The temptation is and will be great to stick with the more readily available and traditional workload type of measurements. But used alone these measurements can lead to perversities and misallocations of effort. The collecting and at least arraying of various quality

> considerations should also be undertaken and used in interpreting workload productivity calculations. Single, readily available, physical measurements, tempting as they may be, should be viewed with a jaundiced eye. Inevitably, for a government to obtain a reasonable perspective of its productivity for any service, it will need multiple measurements. [21: pg 783]

The bottom line, it would appear, is that simplistic notions of productivity measurement should be implemented with great caution, only after careful review. Few units or organizations can measure all of their effort by using quantifiable measurement standards, but all certainly could measure part of it. Development of productivity indices by function within an organization is certainly no easy accomplishment. Also of significant concern should be Thayer's (1972) warning against the adaptation of productivity measurement as the sole determinant of performance:

> ... we are being asked to return all the way to Taylorism as it was first used ... we will realize only a quantum jump in repression and alienation among all those employed in organizations which glorify 'productivity', and at a time when the survival of the planet is likely to require limits on production instead of constant increases in it. [48: pg 833]

7. <u>Goal Congruence and Fairness</u>

Anthony and Herzlinger indicate the expectation that persons will act according to what they perceive to be their own best interests. Accordingly, they state: "a management control system should be designed so that the actions it leads managers to take in accordance with their perceived self-interest are also actions that are in the best interest of

the organization." [6: pg 18]. In reality, they iterate, perfect goal congruence between individual goals and organizational goals does not exist, "but as a minimum the system should not encourage the individual to act against the best interests of the organization." [6: pg 18]. Tricker also speaks to this point when he explains: "The need in designing a management control system is to create that managerial climate in which unit managers are sensitive to suboptimal situations and have aims that are compatible, as far as possible, with group aims." [50: pg 38]. Similarly, Webber sees misdirected control systems (i.e., containing improper goals) as "one of the gravest threats to organizational effectiveness." [52: pg 286]. He points out that people will try to meet the numbers they are measured by and if they cannot achieve the goals by accepted behavior, then undesireable actions will result. [52: pg 286].

This last point, sometimes referred to as a 'numbers game', can have disastrous effects. Harty addresses this issue in describing 'perverse measurements' which are those that encourage workers to initiate actions that result in improved statistical performance, but which are not at all in the interest of the organization. [21: pg 777-8]. As was pointed out in a previous section, and stressed by Kramer (1977), "there is a danger that the choice of a measure, especially of output measures, might contribute to an agency's failure to achieve its goal." [26: pg 239].

Another aspect of goal congruence, as explained by Maciariello, concerns the criterion of fairness which is "concerned with the extent to which the manager of an organizational unit actually has control or influence on those variables that determine successful performance against the measure chosen." [29: pg 7]. He summarizes the relationship between goal congruence and fairness by declaring: "It is important, therefore, not only to apply the criterion of fairness, but to choose methods of measuring performance for each responsibility center that lead to goal-congruent behavior." [29: pg 7].

8. <u>Performance Monitoring, Reporting and Analysis</u>

"Rather than lock the barn door after the horse is stolen, a good control system will catch the thief in the act." [52: pg 303]. This statement is made by Webber in his discussion concerning monitoring performance. He maintains that a control system should "detect departure from expected performance when it first occurs rather than waiting until undesireable results have piled up. In this way corrective action can be initiated early." [52: pg 304].

Bacon writes that "the first element in the process of budgetary control is the preparation of internal management reports showing actual performance results compared with the budget for specific intervals, e.g., weeks, months, or quarters, within the budget period." [7: pg 30]. Sherwin (1959) seems to agree with this concept when he declares:

"If the basis of control is information in the hands of managers, 'reporting' is elevated to a level of very considerable importance." [44: pg 427].

Reports on performance have the main purpose of aiding the management control process. [6: pg 473]. They convey control information from the point where action takes place to the managers who are accountable for results. [2: pg 333]. Allen goes on to explain that the preparation and use of reports are a basic responsibility of every manager. Use of valid reports enable a manager to remain abreast of current operations, make sound management decisions and give him a good basis for future planning. [2: pg 333]. He sees the basic requirement of effective reporting as tailoring and streamlining reports "so that they provide the specific information a manager needs in a form that he can readily understand and apply to his own area of accountability." [2: pg 334]. Reports, in Allen's view, should check the effectiveness of planning, should adopt a stewardship concept (i.e., refer to the accountability of a manager for the facilities, materials and people entrusted to his or her care), should provide meaningful information, and should be timely. [2: pg 334-8].

Expanding on the concept of meaningful information further, Allen iterates three primary points: 1) "The amount of data reported should be in proportion to the controllability of the expense," 2) "Decision-making information should be provided to the lowest organizational level where

perspective exists for sound decision" and 3) "If reports are to be meaningful, they must be understandable by the managers to whom the information is transmitted." [2: pg 336]. This last point is also stressed by Deverell, in his text on business administration and management: "If management is to gain from statistical summaries, cost figures, break-even charts, and statements of working capital, it must first of all be put in a position to understand the presentation without hours of mental wrestling." [12, pg 190].

Stokes (1968) believes that many factors must be considered before a set of control reports is designed. He develops some general criteria for a reporting system; that is, comprehensiveness, balance, efficiency, effectiveness and creativity. [47: pg 23]. If these criterion are followed, "a controls system can assist the executive in four different ways: by informing, by helping to predict events, by helping to diagnose problems, and by reinforcing memory." [47: pg 26]. Many authors, including Lynch (1979), Anthony and Herzlinger (1980) and Koontz and O'Donnell (1972) additionally emphasize the necessity for top management interest and support. For instance, Anthony and Herzlinger write: "The amount of attention that operating managers pay to the control reports depends on their perception of how important top management considers these reports to be." [6: pg 489].

A good reporting system is not a panacea for all management problems, however. As Maciariello explicates: "Control,

however, is rarely achieved through the use of reports and variances alone. Yet reports are indispensable for achieving control, for they provide a comparison of actual performance versus planned performance in a coordinated manner for the entire organization. Reports are necessary but not sufficient devices for control." [29: pg 8].

9. Variance Analysis

Bacon states: "Comparison of budgeted performance with the results of actual operations is a vital element in the process of budgeting control. Probably the most important part of this activity is the measurement and interpretation of variances that show up between the actual figures and the budget." [7: pg 33-4]. He views the knowledge of variances as management tools for control and points out that the important factors in this type of control process are pinpointing the responsibility for variances, getting responsible managers to provide explanations and seeing that effective corrective action is taken to eliminate unfavorable trends. [7: pg 38]. Koontz and O'Donnell share this belief regarding the need for explanation: "Explanation of variances is often overlooked in budget reports, but if they - whether in summary for the whole enterprise or for a department or function - are not supplemented with reasons for any significant differences between budget and actual costs, the manager may be frustrated in using them for control." [25: pg 637-8]. In their classic work on controllership, Bradshaw and Hull (1950) also discuss

the explanation of variances. They point out, however, that the controller's department, while it reports the facts, should leave the responsibility for the explanation of variances to accountable operating personnel. [10: pg 70].

Different schemes are used to classify variances. Anthony and Herzlinger, in discussing the analysis of business-like nonprofit organizations, assert that variances (defined as the difference between planned performance and actual performance) can be explained by four principal factors: volume, price, efficiency and effectiveness. [6: pg 477]. Their text, "Management Control in Nonprofit Organizations," provides a good summary of the technicalities of these variances.

Alternately, using a general, rather than technical, categorical scheme, Morrisey (1976) claims that variances fall into one of four categories described as: uncertainties (reasonable expectations which contain strong possibilities of significant fluctuations), unexpected events, failures, and human error (subdivided into 'honest error' and 'incompetency'). [34: pg 157-8]. He stresses, however, that the labels are unimportant; the need is to identify the variances and act on them. [34: pg 156].

Emch describes action as the essence in a control system. He claims that "merely discovering out-of-line conditions, or having detailed information about a situation, does not achieve control. Control is exercised by taking action, and action must be taken within the authority delegated." [16: pg

439]. He also makes the point that a system of control should require no more than is absolutely necessary in the way of reporting, data and statistics. He provides a simple dictum for determining what is necessary: "In accord with your responsibilities and authority, can you or should you do anything about the information that is presented to you and, if so, what?" [16: pg 440].

Expounding on his concepts of performance evaluating, Allen underscores the importance of control by exception (i.e., variances) by discussing the need to determine allowable limits of tolerance or variance at the outset as the basis for evaluation. He cautions, however, that all deviations should be noted, lest the tolerance tends to become the standard and tolerances need to be established for the original tolerances. [2: pg 341].

Another aspect of the tolerance question, that is 'cost', is addressed by Kaufman (1973). Broad tolerances place greater trust in subordinates and allows "greater variation in behavior before a trigger is tripped and an alarm set off." [24: pg 53]. However, "the narrower the tolerances and the more sensitive the triggers, the more costly a complex of alarms is likely to be." [24: pg 54]. The costs are not only explained in terms of system operation but also in terms of the time and effort required for more frequent investigations and inquiries by management.

The significance of variance analysis, in the author's opinion, is summed up nicely by Edwards (1959):

> The important point in all comparisons is to see that the main intentions of top management are respected. This involves much more than a detailed, legalistic check on compliance with each item allowed for in the budget. It also means seeing that, within the limits set by the budget, the best possible value for money has been obtained. This can often only be done by referring to other records and making empirical investigations. The formal budget comparison statements must be regarded as the starting point for the inquiries and remedial action that alone, by both their positive and their deterrent effects, will result in improved financial efficiency. [15: pg 190].

10. Flexibility and Adapting to Change

Variance analysis, as defined earlier, implicitly assumes that if operations proceed as planned, conditions are satisfactory. [6: pg 482]. However, Anthony and Herzlinger articulate, "conditions in the environment may have changed in such a way that the plan itself needs changing." [6: pg 483]. They stress that management must be alert to signals that indicate that trouble may be brewing because "by definition a formal set of reports cannot be counted on to reveal these danger signals since these reports accept the budgeted amounts as standards of satisfactory performance." [6: pg 483]. Bradshaw and Hull talk to this same issue when they write: "The budget cannot be regarded as a rigid, inflexible plan of operations to be run off according to a predetermined schedule; it is necessarily based on certain fundamental premises which may and probably will change so as to require modification of the plan in some degree." [10: pg 63].

Koontz and O'Donnell highlight the need for flexibility in discussing four separate principles:

> Principle of Flexibility (Planning) - The more that flexibility can be built into plans, the less the danger of losses incurred through unexpected events, but the cost of flexibility should be weighed against its advantages. [25:`pg 234].

> Principle of Navigational Change - The more planning decisions commit for the future, the more important it is that the manager periodically check on events and expectations and redraw plans as necessary to maintain a course toward a desired goal. [25: pg 234].

> Principle of Flexibility (Organizational) - The more provisions are made for building in organizational flexibility, the more adequately organization structure can fulfill its purpose. This principle has to do with building into every structure devices, techniques and other environmental factors in anticipating and reacting to change whether economic, technical, biological, political or social. [25: pg 413].

> Principle of Flexibility of Controls - If controls are to remain effective despite failure or unforseen changes of plans, flexibility is required in their design. [25: pg 676].

The phenomenal rate of change in the world and the environment is emphasized by McConkey in his essay on Management by Objectives (MBO) for nonprofit organizations. Although he ties his comments to the need for an MBO system, this author believes they are generally applicable to any management control system. He declares a need for a system which addresses itself to change with full utilization of all members of the organization; "each having a segment of the entity for which he is responsible, each staying current with the changes that impact on his organization, and each constituting a change agent within his sphere of operation." [31: pg 205].

11. Incentives, Motivation and Productivity Improvement

"A central purpose of any control system," Anthony and Herzlinger write, "is to motivate operating managers to take actions that help accomplish the organization's objectives efficiently and effectively. The problem of inducing the desired degree and direction of motivation is a difficult one in any organization, but it is particularly difficult in a nonprofit organization." [6: pg 448]. They accent the problem of budget conformance in a nonprofit organization by revealing that performance is often measured in part by how well managers conform to their budget. This could result in the "typical attitude toward budgets" that it is "almost sinful not to spend the full amount that is available." [6: pg 449].

Maciariello sees a similar motivational need when he declares: "Equally important for control in a MCS are motivational devices that encourage goal-congruent behavior by fostering a process leading to the internalization of organizational goals by managers and individual contributors." [29: pg 9]. He goes on to say that "included in a well-designed MCS are responsibility-center structures, methods of performance measurement, and rewards that lead to self-control and goal-congruent behavior." [29: pg 9].

Barriers or obstacles to productivity improvement in the public sector are grouped by Starling (1977) into four categories: incentives, information, financial restrictions and organizational constraints. [46: pg 214]. He explains that

government management systems generally penalize bad performance more than they reward good performance; the result being more incentive to avoid blatant failure than to achieve success. To overcome this what is needed is explicit public recognition of good work, productivity bonuses, and bonuses tied to overall organizational success [46: pg 214]. As far as information is concerned, productivity improvement requires the effective exploitation of existing technology and the timely dissemination of productivity ideas. [46: pg 215]. Financial restrictions impact on productivity because some funds are "earmarked for a given purpose and cannot be transferred to clearly related alternative purposes ... even when the public might be better served." [46: pg 215]. Finally, organizational constraints, whether statutory or traditional, limit the public executive in making desireable organizational readjustments. [46: pg 215].

The human relations aspects are highlighted by Gissler in his summary of a Wingspread Symposium on productivity: "A worrisome erosion in the loyalty and morale of numerous governmental workers was mentioned as perhaps the most challenging problem confronting productivity-minded department heads." [19: pg 842]. Tosi, in addressing the human effects of budgetary systems on management, suggests a possible solution to motivation in effectively executing a budget by utilizing House's path-goal theory. The theory suggests that leader

behavior may affect the valences[5] employees attach to goals depending upon whether the paths to goals are clear or ambiguous. [49: pg 60].

12. Personnel Performance Evaluation

Anthony and Herzlinger link reporting and analysis to personnel performance evaluation. One of the purposes of reports, they write, is to be used as a basis of evaluating operating performance. "Such an evaluation leads to actions with respect to managers: praise for a job well done; constructive criticism if it seems to be warranted; and to promotion, reassignment, or, in extreme cases, termination of the managers of the responsibility centers whose performance is reported." [6: pg 17]. Albrecht claims that "the process of appraising performance should flow naturally from the problem-solving and goal-setting process, and from the day-to-day performance of work." [1: pg 153]. The problem, he asserts is that most managers do not really appraise performance. Instead, they find themselves trying to evaluate the individual as a person. "This case of mistaken identity has caused a great deal of frustration, disappointment, hard feelings and even formal grievances." [1: pg 153].

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[5]Valences are defined by Tosi as an affective orientation toward outcomes, or the desirability of the outcome to the individual. [49: pg 60].

Appraisal of performance, according to Koontz and O'Donnell, should include both performance in accomplishing goals and plans and performance as a manager. They write: "Appraisal of managerial ability based on performance against preselected verifiable objectives is a tremendous step in the right direction. It concentrates, as it should, on what a manager 'does' rather than on what someone subjectively thinks of him. When utilized as a standard for evaluation along with appraisal of a manager as a manager, there is hope that we are, at long last, beginning to approach the area of evaluating managers with logic and effectiveness." [25: pg 468-9].

The importance of personnel performance evaluation in the managerial control process is also underlined by Albrecht. He believes that appraising performance should be "an integrated element of the entire process of managing. Just as a manager and the employee confer frequently to analyze problems, review opportunities, arrive at solutions, and set objectives, so also must they confer about results, analyze their progress, revise expectations as necessary, and review their thinking." [1: pg 156].

Budget execution and performance evaluation are tied together by Tosi when he explains that the budget can provide a manager with a specific set of goals and can also provide relatively objective criteria for evaluation of performance. When viewed in this context, the budget can be seen to have definite use as a motivational device. [49: pg 54].

13. The Audit Function

Management control systems should contain their own controls and there should be an internal audit staff to ensure the controls are effective. These controls, according to Anthony and Herzlinger, have three general purposes: "1) to minimize the possibility of loss by theft, fraud or defalcation; 2) to ensure that rules governing the receipt and spending of money and the use of other resources are adhered to; and 3) to ensure that the information flowing through the system is accurate." [6: pg 444]. Warfield (1979) sees the internal auditor's function as quite pervasive as well as central to the management control process: "The internal auditor contributes to the effectiveness of the control system by understanding and applying the concepts for organizational control and effectiveness in six major areas: organizational objectives and responsibilities, organizational structure, decision making, performance evaluation, communication, and organizational change." [51: pg 43].

Sawyer (1978) reflects the importance of auditing in a succinct manner when he writes: "To me, the story of modern internal auditing is the story of management." [41: pg 16]. He claims that although managers are aware of proper management principles and administrative techniques, they just do not capitalize on this awareness. A separate auditing staff is required because managers "are constantly engaged in putting out the brushfires that keep erupting around them" and do

not have the capability to objectively fulfill the auditing function. [41: pg 16].

The foundations of a successful internal auditing function are seen by Sawyer as being technical excellence, demonstrated acceptance and support from top management, and continued, imaginative service to management. [42: pg 2]. Additionally, for the auditing function to be effective, it must be independent of the activities it audits. The audit staff must have "a reporting status that permits the maintenance of objectivity, and removes the auditor from effective dependence upon the people whose activities he audits." [42: pg 4].

As a final point concerning audits, the U.S. General Accounting Office (GAO) has separated audits into three distinct levels. Pomeranz, et al. (1976) discuss the three levels at length in their text on auditing in the public sector. The three levels are:

> Level I - Financial and Compliance. Determines (a) whether financial operations are properly conducted, (b) whether the financial reports are presented fairly and (c) whether applicable laws and regulations have been complied with.
>
> Level II - Economy and Efficiency. Determines whether the entity is managing or utilizing its resources in an economical and efficient manner and the causes of any inefficiencies or uneconomical practices, including inadequacies in management information systems, administrative procedures, or organizational structure.
>
> Level III - Program Results. Determines whether the desired results or benefits are being achieved, whether the objectives are being met and whether alternatives have been considered which might yield desired results at lower costs. [38: pg 5-9]

14. Training

Koontz and O'Donnell point out that if a manager desires to abolish unsatisfactory results, it requires changing the future action of the responsible person through additional training, modification of procedures, or new policy. They describe two ways of affecting the change of future behavior: indirect control and direct control. Indirect control, the normal procedure, involves tracing an unsatisfactory result to the responsible person and getting him to correct his practices. The alternative, direct control, is to "develop better managers who will skillfully apply concepts, techniques and principles and thus eliminate undesirable results caused by poor management." [25: pg 656]. They summarize their thoughts in the "Principle of Direct Control: The higher the quality of managers and their subordinates, the less will be the need for indirect controls." [25: pg 659]. Specific, ongoing and comprehensive training and education are a means of achieving this direct control.

Albrecht views training and development programs as intervention strategies[6] that management can take in causing desirable changes to happen in an organization. Basically, he explains, various managerial and employee behavior goals can be made into targets and training programs can be designed to help people acquire the targets. [1: pg 205].

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[6]Intervention strategies, as defined by Albrecht, are those consciously adopted management actions aimed at achieving selected goals. [1: pg 204].

Reviewing operating budgets in the public sector, Lynch maintains that operating managers must support the budget system; they must understand how it affects them and what they need to do to support it. Further, he claims they should "understand the larger context of the system and public budgeting in general so that problems and requests can be anticipated." [28: pg. 144]. The need for training, within the overall management control system, is clearly indicated by his comments.

15. <u>Informal Control Systems</u>

Alongside the formal management control system, every organization has an informal system of relationships among the members of the organization. Anthony and Herzlinger claim that to understand the total management control process, "discerning the nature of this informal system is at least as important as learning about the formal system." [6: pg 20]. Not only should the nature be discerned, but all efforts should be taken to see that the goals of the informal system are congruent with the formal system. As Maciariello writes: "In smoothly functioning organizations the informal organization structure, which is influenced by physical layout, communication channels, and the spirit surrounding the preparation of long-range and short-range plans, supports rather than conflicts with the formal management-control structure and process." [29: pg 9].

The 15 aspects of management control presented above are indicative of the breadth and complexity of the management control function. However, they only represent the foundation upon which a viable management control system is built.

Maciariello summarizes the purpose of management control by stating: "Through the use of a control system the management of an organization assures that its resources are used effectively in pursuit of its objectives." [29: pg 9]. He adds a caveat, however, declaring that there are many types of management control systems and each must be adapted to the situational requirements of a given organization.

Anthony and Herzlinger caution that although management control is quite important, it is not the whole of management. They claim that: "an even more important function is to make judgements about people, their integrity, their ability, their potential, their fitness for a given job, their compatibility with colleagues." [6: pg 21]. They also emphasize that "even with the best system, managers must analyze and interpret data, they must allow for its inadequacies, they must take into account much information not available in the system, they must use judgement in making decisions, and they must use behavioral skills in implementing these decisions." [6: pg 551].

D. A MODEL - MANAGEMENT BY OBJECTIVES AND RESULTS (MOR)

Management by Objectives and Results (MOR) is an outgrowth, or further refinement, of the Management by Objectives (MBO) process. [34: pg 2]. To fully understand the MOR model, therefore, a brief overview of the MBO concept is considered by the author to be helpful.

1. MBO in Brief

Management by Objectives has been defined by various authors as:

> George Odiorne -- "The system of management by objectives can be described as a process whereby the superior and subordinate managers of an organization jointly identify its common goals, define each individual's major areas of responsibility in terms of the results expected of him, and use those measures as guides for operating the unit and assessing the contribution of each of its members." [37: pg 55].

> Peter Drucker -- "Management by objectives and self-control may properly be called a philosophy of management. It rests on a concept of the job of management. It rests on a concept of human action, behavior, and motivation. It applies to every manager, whatever his level and function, and to any organization whether large or small." [14: pg 442].

> Karl Albrecht -- "Management by Objectives is nothing more -- nor less -- than an observable pattern of behavior on the part of a manager, characterized by studying the anticipated future, determining what payoff conditions to bring about for that anticipated future, and guiding the efforts of the people of the organization so that they accomplish these objectives while deriving personal and individual benefits in doing so." [1: pg 20]

McConkey declares that "contrary to popular thinking, the key word in the term 'management by objectives' is not the word 'objectives' but the word 'management'." [31: pg 11]. He claims that failure to recognize this distinction has been at the root of many organizational failures at practicing MBO. [31: pg 11].

The steps in the MBO program, as summarized by Webber, are: subordinates propose goals for the ensuing time period; subordinates and superiors discuss, modify and reach agreement on the goals; periodic formal and frequent informal review of

performance and progress toward goals; subordinates report on their performance vs. goals at the end of the period; and the cycle is repeated. [52: pg 318]. Albrecht, as do other authors on the subject of MBO, believes that any manager, at any level, in any organization can adopt the MBO process and steps to meet his or her particular needs. [1: pg 22].

The MBO program is not, however, immune from criticism or problems; it is not a panacea. Webber summarizes the problems with MBO as: distrust of the system; resentment of the program; people's resistance to paperwork; the focus tends to be too narrow and too short-run; inconsistency between top and bottom plans; evaluation not tied to MBO; and inability to measure objectives. [52: pg 319]. Levinsen (1975) claims that the MBO process is inherently self-defeating over the long run because it is "based on a reward-punishment psychology that serves to intensify the pressure on the individual while really giving him a very limited choice of objectives." [27: pg 69]. Albrecht relates most MBO failures to two basic causes that he calls 'thinking traps':

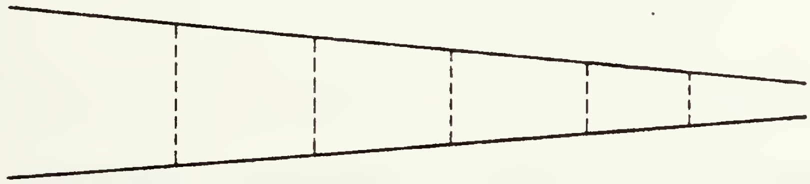
> a. Mistaking the basic concept of management by objectives for a cookbook methodology and trying to apply it to a human system which they think of abstractly as some kind of mechanical apparatus. [1: pg 27]
>
> b. Overlooking the entire matter of employee commitment and assuming that the task is merely to drive people toward a better way of working. [1: pg 28].

2. <u>Definition of the MOR System and Process</u>

MOR is a further refinement of the MBO process. It incorporates a closed-loop approach to ensure that results

achieved do in fact resemble the objectives that were set. [34: pg 2]. Morrisey states that "MOR is a commonsense, systematic approach to getting things done and is based on principles and techniques that many good managers have been practicing for decades." [34: pg 2]. The MOR process, which requires the manager to focus on results rather than activities, builds on the strengths that have been developed from past experience, with modifications and additions as good judgement dictates. [34: pg 227].

Morrisey illustrates his model schematically by utilization of a horizontal funnel, as depicted in Exhibit 2-9. As a process, it moves from the general to the specific. The purpose



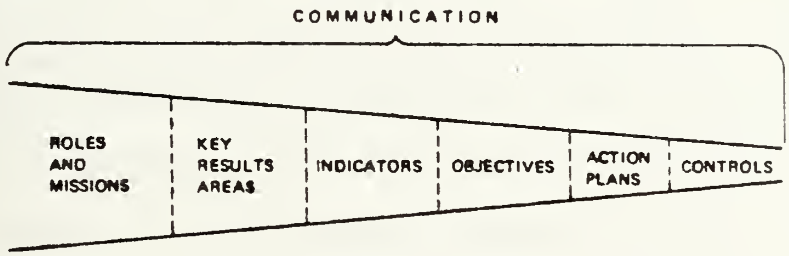
The MOR Funnel

Exhibit 2-9 [34: pg 4]

of the MOR process is "to subdivide a large, complex effort until it reaches a manageable unit size." [34: pg 227]. Inherent in the process is the requirement for integration, through human intervention, thus promoting understanding, involvement and commitment. [34: pg 227].

The MOR process consists of six steps: defining roles and missions, determining key results areas, identifying and specifying indicators of effectiveness, selecting and setting objectives, preparing action plans and establishing controls.

The human process aspect of the model, which elevates the MOR process from a mechanical one to a people-oriented one, is provided for by communication. Communication is thus identified by Morrisey as "the catalyst that ties the whole process together." [34: pg 22]. He insists that communication will lead to involvement which results in commitment. The completed model can thus be shown as depicted in Exhibit 2-10.



The Completed MOR Funnel

Exhibit 2-10 [34: pg 23]

Morrisey explains that the principal steps shown fall within the management functions of planning and controlling. He emphasizes, however, that the organizing, staffing and directing functions of management are equally recognized in application of the MOR concept. [34: pg 17].

3. Overview of the MOR Steps

Systematically following the MOR approach to management, tempered by good judgement and the practice of effective leadership principles, will result, in Morrisey's view, in increased productive output and job satisfaction for the individual manager as well as greater overall results for the total organization. [34: pg 226]. The details of the steps of the MOR process will be explained below:

a. Defining roles and missions

A statement of roles and missions is a statement describing the nature and scope of the work to be performed. [34: pg 25]. In effect, it describes the organization's or functional unit's reason for existence. The difference between the roles and missions of the total organization and its units are "primarily ones of degree and derivation." [34: pg 25]. Morrisey states that for the total organization, the 'roles-and-missions statements' include the broad identification of the type of operation, the major areas of services or clientele, and the organizational approach as well as the philosophical basis for its operation. On the other hand, for the functional unit, the statements address the unique contribution of the unit toward overall organizational objectives, the economic, functional and other commitments to be made, the major type of work that should be undertaken by the unit, as well as any additional philosophical considerations. [34: pg 25]. A valid statement of roles and missions is then the baseline from which all unit objectives should be drawn. Therefore, it is of the utmost importance that each manager have a clear, concise and comprehensive statement before he defines his unit's roles and missions. If no organization-wide statement exists, each manager must, at least conceptually, create one. [34: pg 26].

In this step, Morrisey states, "perhaps more than in any other in the process, the discussion and analysis that

take place among key members of management are far more critical than the statement that comes out on a piece of paper." [34: pg 27]. There has to be clear agreement at the top level of management. The lack of it "is an open invitation to the dissipation of efforts at lower levels." [34: pg 27].

Establishing and periodically reexamining unit roles and missions accomplishes three things: it provides a basis for resource allocation and what kind of objectives should be set; it serves as a horizontal and vertical communications vehicle classifying who should be doing what; and it is a means for managers to periodically reevaluate the unit's efforts in terms of current relevancy. [34: pg 28]. The process of defining roles and missions continues downward through an organization with each subordinate level defining their own statements, consistent with that of the unit manager. Key to the process is the final agreement by superior and subordinate of the validity of the statements.

b. Determining key results areas

This step further breaks down the unit's roles and missions into categories requiring a significant investment of the unit manager's time, energy, and talents for a specified period of time (usually six months to a year). "They identify those areas where 'results', not activities, are significant enough to warrant specific attention by the manager." [34: pg 43].

Morrisey utilizes the "Principle of the Critical Few" to indicate the necessity for this step. Management activities are classified in three categories: the trivial many (such things as routine meetings, telephone calls, paper-work, etc., which consume a vast amount of time and effort with little, if any, significant payoff); maintenance (important ongoing productive efforts that are largely self-sustaining or functions that have a valuable output but which can be accomplished by a standardized, possibly reduced input); and the critical few (functions where a concentration of efforts leads to the greatest payoff). The critical few activities are those areas where a significant investment of the manager's time, energy and talents can make the greatest contribution to the unit's roles and missions. [34: pg 45]. This principle is graphically demonstrated in Exhibit 2-11.

Morrisey provides nine basic guidelines to help managers determine their key results areas:

1) They will identify all major areas within which the accountable manager will be expected to invest time, energy, talent and other resources during the period of commitment.

2) They will include both managerial and operational responsibilities.

3) They will cover both normal work output expectations and innovations or improvement efforts.

4) They will include 'soft' or difficult to measure areas (i.e., public relations) as well as 'hard', tangible areas (i.e., cost control).

5) They will not necessarily cover the entire job, but will highlight 'the critical few' areas for priority effort.

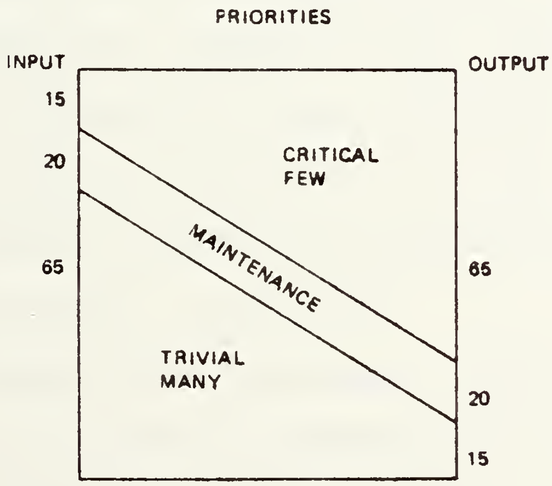
6) Each will be limited, generally, to one, two, or three words.

7) They will not represent activities as such, but rather areas within which activities and results will occur.

8) Each will not be measurable as stated, but will contain elements that are capable of being made measurable.

9) Collectively, they will form a basis for effective horizontal and vertical communication. [34: pg 46-7].

He claims that a list from five to ten key results areas is about normal for most managers. [34: pg 49]. A list greater than ten is either too detailed or is representative of a manager who is spread too thin. A list less than five may be too broad to be useful or may suggest a managerial level that could be eliminated. [34: pg 49].



The Principle of "The Critical Few"

Exhibit 2-11 [34: pg 44]

A final point regarding key results areas regards setting priorities. Morrisey suggests that the key results areas should be placed in priority order. Next, the manager and superior should compare the percentage of time actually spent on that area to the percentage of time deemed appropriate for that area. The negotiations that ensue will provide a much clearer understanding of where managerial efforts will be directed. [34: pg 49-50].

c. Identifying and specifying indicators of effectiveness

Indicators are those measurable factors within a given key results area on which it is worthwhile to set objectives. They only identify 'what' will be measured, not how much or in what direction. The key in this step is reaching agreement among those concerned that the indicators represent "something that is worth tracking or doing something about." [34: pg 55]. Although, Morrisey claims, the natural inclination is to write objectives first, and then try to identify indicators, identifying indicators first can be a most useful tool in the process of opening up practical new ideas for increasing effectiveness. [34: pg 63].

Indicators may represent: 'hard' numbers (units of production per man-hour), problems to be overcome (eliminating a backlog of work) or 'soft' numbers or indicators of effectiveness in subjective areas (personnel turnover or absenteeism related to morale). [34: pg 63]. They are classed

into one of three dimensions: concurrent indicators - factors that can be identified in advance and tracked during performance against objectives (e.g., output per man-hour); pre-indicators - factors identified before the fact that will point toward a course of action (e.g., economic trends); and terminal indicators - factors that can be measured only after the fact (e.g., number of promotions). [34: pg 59]. The cost of identifying and monitoring the indicators chosen should not exceed the value of the information obtained. [34: pg 60].

As in each step discussed, communciation and negotiation among superiors and subordinates is essential in preparing the lists of indicators, evaluating them against the guidelines, and selecting those that seem most useful in identifying the results desired to be achieved during the projected period. [34: pg 61]. Review and reevaluation as the period progresses is equally as important.

d. Selecting and setting objectives

Morrisey emphasizes that this is perhaps the most critical step in the MOR process, for, "without valid, clear-cut objectives, the remaining functions and activities of management are relatively meaningless." [34: pg 96]. In fact, the first three steps in the MOR process, utilizing the funnel concept explained earlier, are designed to lead to the establishment of worthwhile objectives. Whereas 'roles-and-missions' statements are general, continuing and non-specific in nature, establishing the kind of work to be performed, objectives are

quite specific, have an identified point of completion and add substance, direction and measurability to an organization's activities. [34: pg 96].

"Objectives form the basis for determining what activities should be performed and also help establish criteria for evaluating how well they are being performed." [34: pg 65]. An objective is simply a statement of results to be achieved. Objectives must include the normal work output of the unit as well as new or innovative efforts. [34: pg 67]. However, a judgement must be made by a manager as to which objectives, if written, yield the most promise of benefit. If a manager wrote an objective for every task, much of his time and energy would be consumed in this endeavor. [34: pg 68]. Morrisey also cautions that "the primary purpose of an objective is to serve as a working tool, not as a publicity instrument to impress others." [34: pg 68].

Sixteen guidelines for writing objectives are iterated by Morrisey. He declares that, under normal circumstances, a well-formulated objective meets the following criteria:

"1) It starts with the word "to," followed by an action or accomplishment verb.

2) It specifies a single key result to be accomplished.

3) It specifies a target date for its accomplishment.

4) It specifies maximum cost factors.

5) It is as specific and quantitative (and hence measurable and verifiable) as possible.

6) It specifies only the "what" and "when"; it avoids venturing into the "why" and "how."

7) It relates directly to the accountable manager's roles and missions and to higher-level roles, missions, and objectives.

8) It is readily understandable by those who will be contributing to its attainment.

9) It is realistic and attainable, but still represents a significant challenge.

10) It provides maximum payoff on the required investment in time and resources, as compared with other objectives being considered.

11) It is consistent with the resources available or anticipated.

12) It avoids or minimizes dual accountability for achievement when joint effort is required.

13) It is consistent with basic organizational policies and practices.

14) It is willingly agreed to by both superior and subordinate, without undue pressure or coercion.

15) It is recorded in writing, with a copy kept and periodically referred to by both superior and subordinate.

16) It is communicated not only in writing, but also in face-to-face discussions between the accountable manager and those subordinates who will be contributing to its attainment." [34: pg 97-8].

e. Preparing action plans

This step involves determining how to achieve specific objectives. It allows a manager to examine different alternatives and determine which approach makes the most sense under existing circumstances. Morrisey stresses that "every objective must have an action plan." [34: pg 106]. Preparing action plans incorporates five substeps:

"1) Programming -- establishing a sequence of actions to follow in reaching objectives.

2) Scheduling -- establishing time requirements for objectives and action steps.

3) Budgeting -- determining and assigning the resources required to reach objectives.

4) Fixing Accountability -- determining who will see to the accomplishment of objectives and action steps.

5) Reviewing and Reconciling -- testing and revising a tentative plan, as needed, prior to commitment to action." [34: pg 105]

The programming phase is seen as the most crucial of the five substeps as it provides data for the other substeps. [34: pg 106]. It involves laying out the route to follow to ensure the accomplishment of an objective. Inherent in the programming phase is alternative evaluation, a process whereby various alternatives, each capable of resulting in achievement of the objective, are analyzed according to the three basic criteria of: contribution to the objective, cost and feasibility. [34: pg 110]. Based on this analysis and managerial judgement, the method desired for pursuing the objective is chosen.

The end result of this process of determining how to achieve specific objectives can be promulgated utilizing Morrisey's Action Plan format. Shown in Exhibit 2-12, it provides a clear, concise method for visually presenting the specific methodology being implemented to achieve the stated objective.

ACTION PLAN

What is your objective? To (action or accomplishment verb) (single key result) by (target date) at (cost)

ACTION STEPS	BY WHEN	COSTS		BY WHOM	
		$	HOURS	US	THEM

Action Plan format. (Copyright 1973 by George L. Morrisey, MOR Associates, Buena Park, CA 90622)

Exhibit 2-12 [7: pg 119]

f. Establishing controls

This step is designed to close the loop on the MOR process. Morrisey indicates that this fact seems to be missing from many MBO applications and is one of the reasons that he considers the phrase 'management by objectives' to be incomplete; leading to his adding the phrase 'and results'. [34: pg 144]. As mentioned earlier in this chapter, Morrisey asserts that managerial controlling has only one reason for its existence; to alert management to the fact that trouble is imminent in sufficient time to allow corrective action to be taken. [34: pg 144]. He also emphasizes the fact that controlling, which does not produce any unit output, is a cost item which represents time and effort. Hence, "effective controlling provides for adequate visibility in a timely fashion with the least expenditure of time and effort." [34: pg 145]. Essentially, a cost-benefit analysis must be applied to the function of controlling. [34: pg 146].

In establishing controls, a manager must first determine what is to be measured. To do this, objectives should be examined in terms of their four basic elements: time, resources (human and material), quality and quantity. [34: pg 147]. Additionally, the 'principle of the critical few' (Exhibit 2-11) should be applied to the function of controlling. Morrisey suggests the use of a matrix similar to Exhibit 2-13 in examining objectives when undergoing the process of establishing controls.

BASIC ELEMENTS	WHAT IS LIKELY TO GO WRONG?	HOW AND WHEN WILL YOU KNOW?	WHAT WILL YOU DO?
TIME			
RESOURCES			
QUALITY			
QUANTITY			

Factors to be weighed in the Controlling function.

Exhibit 2-13 [34: pg 149]

Referring to Allen's (1964) "Principle of Point of Control," which states that the greatest potential for control tends to exist at the point where action takes place, Morrisey also insists that "control data must be made available to the manager and/or employee directly accountable for the action at least simultaneously with, if not prior to, its availability to higher-level management." [34: pg 148]. Additionally, standards (a gauge of effective performance in achieving objectives) must be developed as indicators of successful performance. [34: pg 150]. Much of the data previously generated in the identifying of indicators of effectiveness and selecting and setting of objectives phases of the MOR process will find definite applicability here. [34: pg 151]. What is essential is that standards, to be meaningful, must be both understood and accepted by the accountable manager, his or her superior, and his or her subordinates. Participative standard setting is certainly indicated. [34: pg 156].

Following the setting of standards, probable causes of variance from standard which are likely to require corrective action, should be identified. Identification of these potentially critical factors will aid management by alerting them to problems before they "get beyond the point of no return." [34: pg 158]. Subsequent to setting standards, the method(s) of measurement that will provide the necessary performance visibility with the least expenditure of time and effort should be selected. [34: pg 158]. Finally, in closing the loop, variances should be analyzed, the appropriate type of corrective action determined, and the appropriate steps applied. Morrisey outlines three types of corrective action that can take place (sometimes in combination): self-correcting action, operating action or management action. This last type of corrective action could result in modification of the standard, action plan or original objective. [34: pg 168].

g. Communication

Morrisey pronounces that the MOR process is a human rather than a mechanical one. The six steps in the MOR funnel provide "a means for increasing the understanding and commitment of the people who must work within that framework." [34: pg 186]. Effective communication, he demonstrates, at every step along the way, provides the catalyst for bringing about this commitment and understanding. [34: pg 186]. Anthony (1965) also stresses the relevance of communications when he comments: "in the management control process the

communication of objectives, policies, guidelines, decisions, and results throughout the organization is extremely important. [3: pg 50].

h. Implementation

As with every other management control system, the real moment of truth arrives when it comes time to bring the system on line. [34: pg 188]. Implementation requires careful planning, utilizing a systematic approach that has been carefully worked out and agreed to by all key people. [34: pg 211].

E. UTILIZATION OF THE MOR PROCESS FOR MANAGEMENT CONTROL/ BUDGET EXECUTION AT NAVY SHORE COMMANDS

Earlier in this chapter, differences between the public and private sectors were highlighted. Morrisey recognizes the conceptual differences providing a list of nine "most frequently identified special concerns of the public sector"

"1. Leadership -- elected officials, political appointees, military turnover, etc.

2. Relation to legislative bodies.

3. Jurisdictional problems -- whose "turf" is it?

4. Headquarters versus region/area -- who's running the show?

5. Communication within the hierarchy -- what's going on?

6. Relation to PPB and other management systems -- the "paper mill."

7. Relation of special projects to normal work -- what do "they" really want?

8. Setting priorities under austerity conditions -- asking for the impossible.

9. Impact of civil service, automatic progression, and other personnel systems." [34: pg 214]

Nonetheless, he claims, "the beauty of MOR as a conceptual approach to management lies in its tremendous flexibility. It can and must be adapted to the individual manager and the local situation." [34: pg 225]. He differentiates, however, between having knowledge of the approach or tools offered in the MOR process and putting the knowledge to good use. The real 'art' of management comes in knowing 'when' and 'how' to use the tools. "That requires the exercise of sound managerial judgement and a remarkable tolerance for ambiguity." [34: pg 225]. MOR provides the framework to take something that is large, complex and unmanageable in its totality and reduce it, through use of the MOR funnel, to a manageable, digestible size. [34: pg 225]. The execution of the O&M,N appropriation at Navy shore commands is, in the opinion of the author, an area in which the MOR process can be successfully applied.

Lynch discusses a parallel thought on the macro level:

> An unused but potentially significant crosswalk is between the MBO objectives and the program structure or appropriation structure. MBO can be an extremely useful public management technique, but often it is applied without reference to the budget. This is foolish because how can one reasonably expect objectives to be met without also establishing that necessary resources are available to conduct the program? The two should not be treated in isolation, but they are by many agencies. If they are treated separately this strongly indicates a lack of coordination of management direction within the agency because both MBO and the budget are tools to achieve management direction. [28: pg 130].

Anthony and Herzlinger also expound a similar insight: "Some organizations use a 'management by objectives' procedure that is quite separate from the budgetary process. ... Such a separation is undesirable." [6: pg 334].

F. SUMMARY

This chapter has discussed the concept of management control and tied the budget execution function thereto. Comparisons were made between profit-oriented and nonprofit-oriented management control systems. Fifteen aspects of the budget execution/management control function were presented and discussed. Finally, the MOR management control model was presented and explained. Following a general description of the model, its adaptation by Navy shore activities was suggested.

The next chapter will outline budget execution practices and procedures prescribed for shore activities. The chapter essentially delineates the financial environment within which shore commands operate.

III. BUDGET EXECUTION IN THE U.S. NAVY

A. INTRODUCTION

This chapter will provide a brief overview and summary of budget execution practices and procedures within the Department of the Navy (DON). Initially, budget execution will be explained in terms of the four cycles of the budgetary process. Next, the authorization and appropriation process will be described in terms of their relation to budget execution. The flow of funds and steps in the budget execution process will afterwards be discussed. Finally, management control and budget execution practices and procedures will be highlighted, including such topics as the Resource Management System (RMS), the Uniform Management Reports (UMR) system, reprogramming procedures and budgetary controls. Throughout the chapter the focus will be on the O&M,N Appropriation as delineated in Chapter I.

The purpose of this chapter is to present a very brief summary of DON budget execution policies regarding the O&M,N Appropriation such that comparisons may later be drawn, following analysis of the questionnaire results contained in Chapter IV, with the model presented in Chapter II. The author reviewed DON directives and manuals, such as the Navy Comptroller (NAVCOMPT) Manual and "Financial Management of Resources (Shore Activities) (NAVSO P-3006-1)", in order to extrapolate the necessary information. However, in contrast

to Chapters I and II, specific reference to the source of information presented will generally be omitted. Rather, a bibliography utilized is presented at the conclusion of this document, following the list of references.

B. OVERVIEW OF BUDGET EXECUTION

1. Budget Execution and the Budget Cycle

The purpose of the budget process is to allocate scarce resources among competing public demands. Inherent in the process is the quest to attain specified objectives. The budgetary process can be viewed as a cycle consisting of four phases: executive formulation; congressional enactment; budget execution; and audit. Each of these four phases interrelates and overlaps the others. Within the Department of Defense (DOD), the executive formulation phase is further subdivided into the planning, programming and budgeting stages. The stages of the DOD's Planning Programming and Budgeting System (PPBS) are designed to accomplish the following:

Planning - The global threat, keyed around the security of the United States, is assessed and a strategy required to meet that threat is defined. The planning phase is initiated with the submission of the Joint Strategic Planning Document (JSPD) and ends with the Secretary of Defense's (SECDEF) issuance of the Consolidated Guidance (CG).

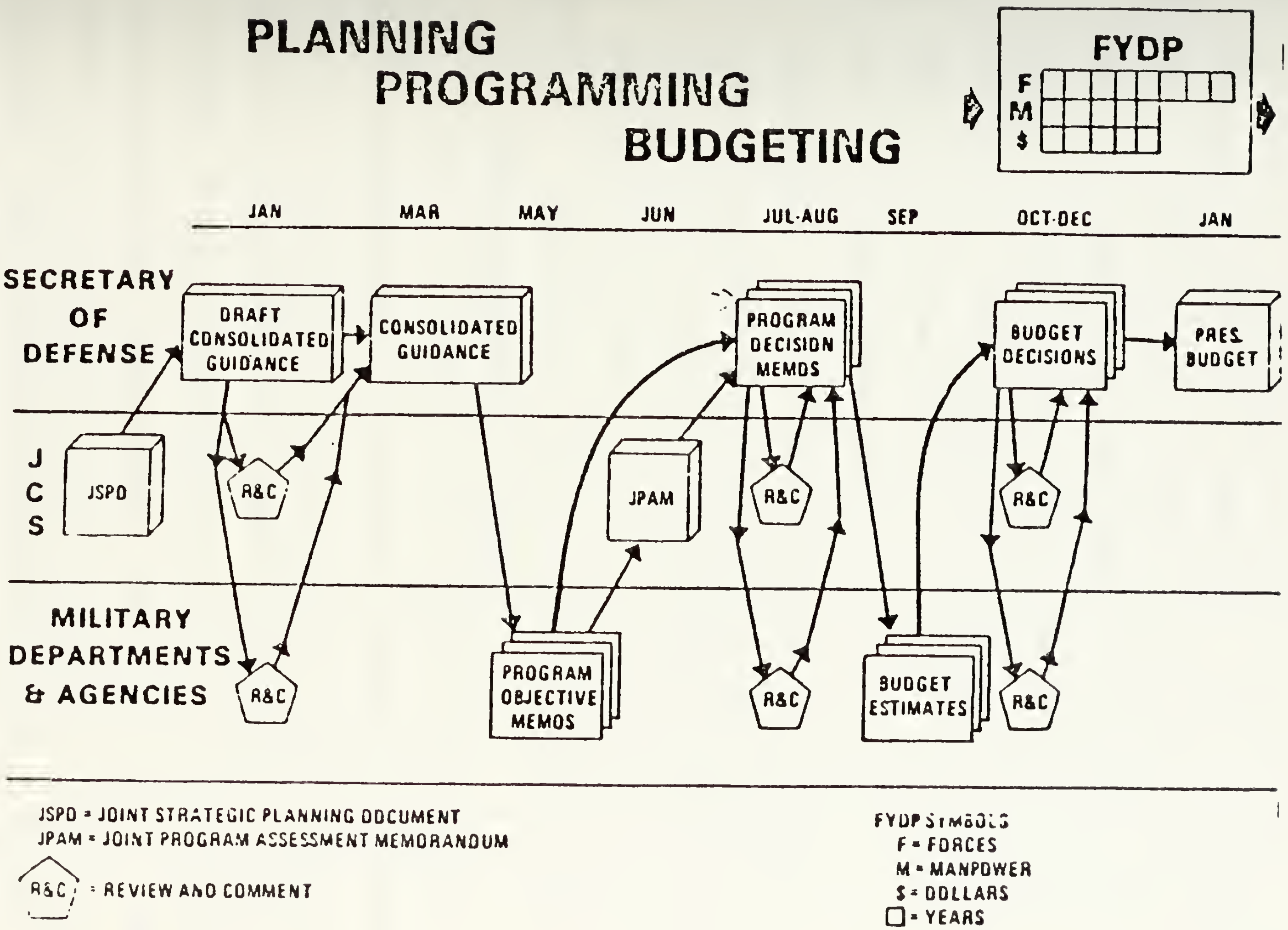

PLANNING
PROGRAMMING
BUDGETING
FYDP
F
M
$
JAN
MAR
MAY
JUN
JUL-AUG
SEP
OCT-DEC
JAN
SECRETARY OF DEFENSE
JCS
MILITARY DEPARTMENTS & AGENCIES
DRAFT CONSOLIDATED GUIDANCE
CONSOLIDATED GUIDANCE
PROGRAM DECISION MEMOS
BUDGET DECISIONS
PRES. BUDGET
JSPD
R&C
JPAM
PROGRAM OBJECTIVE MEMOS
BUDGET ESTIMATES
JSPD = JOINT STRATEGIC PLANNING DOCUMENT
JPAM = JOINT PROGRAM ASSESSMENT MEMORANDUM
R&C = REVIEW AND COMMENT
FYDP SYMBOLS
F = FORCES
M = MANPOWER
$ = DOLLARS
☐ = YEARS

Exhibit 3-1

Programming - The strategy defined in the planning phase is translated into alternative program force structures in terms of time-phased resources requirements including personnel, monies, and materials. The programming phase of the DOD PPBS cycle commences with the promulgation of the CG by SECDEF and concludes with the issuance, by SECDEF, of the Program Decision Memorandum (PDM) and ultimately, after review by the Service Chiefs (i.e., CNO), Service Secretaries and SECDEF, the Amended Program Decision Memorandum (APDM).

Budgeting - The financial requirements necessary to support approved programs which were developed during the preceding phases of planning and programming are expressed in appropriation format.

Exhibit 3-1 presents an overall view of the DOD PPBS cycle.

2. _Budget Execution in General_

Budget execution is that phase of the budget cycle which encompasses all the actions required to accomplish effectively and efficiently the programs for which funds were requested and approved by competent authority. Once approved, the budget becomes the financial plan for the operations of the organizational agency during the fiscal year. Budget execution and control continues through the fiscal year with the intent that obligations incurred and the resulting expenditure of funds follow the provisions of the authorizing legislation and appropriations, as well as other laws and

regulations relating to the obligation and expenditure of funds. The overlap with both the formulation and auditing phases of the budget process can thus be seen. The NAVCOMPT Manual, Vol VII provides the following overall definition of budget execution:

> Budget execution is that phase of the budget cycle which encompasses all the actions required to accomplish effectively, efficiently, and economically the programs for which funds were requested and approved by competent authority. The budget execution phase overlaps the formulation and review phases in that updated financial plans based on current priorities must be completed in time for action under those plans to begin on 1 October of a new fiscal year. The execution phase continues throughout the period of availability of the appropriation for obligation or expenditure. Effective budget execution requires procedures for control and evaluation which will ensure compliance with regulations and limitations established by the Congress, the General Accounting Office, the Treasury Department, the Office of Management and Budget (OMB) and the Secretary of Defense, as well as by all echelons of responsibility and command within the Department of the Navy. [36: pg 3-1]

Budget execution actually begins before the start of the fiscal year, with updated financial plans (allocations) being completed based on current priorities, and continues throughout the period of availability of the appropriation for obligation or expenditure. For annual funds, like the O&M,N Appropriation, closing occurs three years following appropriation by the Congress.

Budget execution responsibilities, i.e., to apportion appropriations so "as to prevent obligation or expenditure thereof in a manner which would indicate a necessity for deficiency or supplemental appropriations" rests with the

Director of the Office of Management and Budget (Sec 3679 of the Revised Statutes).[7] This "administrative control" responsibility applies to each administrative level within the funding structure, i.e., Secretary of Defense (Assistant Secretary of Defense (Comptroller)), Secretary of the Navy (responsibility assigned to the Comptroller of the Navy), the Chief of Naval Operations, and other responsible officials (commands) within the Department of the Navy. The Comptroller of the Navy establishes systems, procedures, and reports required for effective control of financial operations, including continuous review of obligation/expenditure rates, and reprogramming proposals.

There are three steps necessary to make funds appropriated to the Navy available for commitment, obligation and expenditure.[8] The steps are: receipt of a copy of an Appropriation Warrant; approval of the request for apportionment of funds and; approval of budget activity allocations or operating budgets. These steps will be discussed further in this chapter, however, a brief review of the legislative process which results in funds being appropriated to the DON is considered at this point to be germane.

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[7]Section 3679, as well as Section 3678, of the Revised Statutes will be discussed later in this chapter.

[8]A commitment is a reservation of funds based upon currently directed use of funds leading to obligations. An obligation is a liability, e.g., a firm contract for goods or services. An expenditure is payment of an obligation.

3. The Authorization Process

The enactment of authorizing legislation (i.e., an Authorization Bill) is the result of many months of planning, analysis and interaction both within and between the executive and the legislative branches of the federal government. The authorization process, which is the first step in a two-step authorization and appropriation procedure, actually begins one year in advance of the budget year. DOD proposals, consolidated from inputs submitted up through the chain of command, are submitted to Congress by May 15 of the year preceding the budget year. The proposals are submitted to the House and Senate Armed Services Committees (HASC & SASC), who review the content and implications of the program proposals. Because the two-step process is utilized, Congress first enacts specific legislation authorizing an agency to pursue a particular program or activity before it appropriates funds. Congress can even add new programs not sought by the executive branch during the authorization stage.

Although the authorization process is concerned with programs and not specifically with the amount of funds to be applied, in recent years authorizations have often set maximum dollar levels for amounts to be appropriated each year or over a period of years. In addition, authorizations often specify program levels, particularly for manpower programs.

Overlapping the two-step authorization and appropriation process is the overall budgetary enactment process. In

this regard, the DOD PPBS cycle results in the submission of a budget proposal to the President via the Office of Management and Budget (OMB). Following review and approval, the President's Budget is sent to the Congress 15 days after Congress convenes in the new calender year (e.g., January 20).

Congress also receives, by February 1, an annual report, addressed to the budget committees, from the Congressional Budget Office (CBO). The report analyzes the economy, the current services budget and the President's Budget. Alternative levels of spending are suggested. By March 15, following their own review and analysis of the President's Budget, the standing and joint congressional committees (Legislative, Appropriation, Finance, Ways and Means, Joint Economic, and Joint Internal Revenue Taxation Committees) submit reports on budget estimates to the House and Senate Budget Committees.

The House and Senate Budget Committees report to each House by April 15 the "First Concurrent Resolution" which sets forth the level of total budget outlays and total new budget (obligational) authority. By May 15, both Houses act on this resolution and resolve differences in conference. Also by May 15 of the budget year, the authorizing committees (HASC and SASC for DOD) report, to their respective House, bills and resolutions which specify approved programs and program levels.

4. The Appropriation Process

Once a program receives authorization, it acquires

funds for execution through separate appropriations legislation. Commonly, Congress enacts a one-year appropriation (i.e., O&M,N Appropriation) or a multiple-year appropriation permitting funds to be obligated during one fiscal year or over several years, respectively. Congress can, however, enact a no-year appropriation, making funds available for obligation until the spending purpose has been fulfilled.

The appropriation process basically begins with the First Concurrent Resolution, when Congress begins floor action on individual spending bills. The President submits additional budget amendments by July 15 based on changed circumstances and new information. The Appropriations Committees, and their subcommittees, conduct reviews, hold hearings and analyze all pertinent data in working toward enactment of specific spending bills. The Congressional Budget Committees take cognizance of congressional spending actions and changed economic conditions in preparing the "Second Concurrent Resolution." The new resolution specifies changes in total revenues and the limit of public debt and sets new target levels for budget authority and outlays. A reconciliation process ensues, culminating in, hopefully by September 15, adoptation of the Second Concurrent Resolution and completion of action on bills providing new budget authority and new spending authority. The appropriation bill becomes law by Presidential signature. This legislative procedure is designed to be completed by the beginning of the new fiscal year on October 1. The major

events of the budget review process described are shown in Exhibit 3-2.

5. Continuing Resolutions

The October 1 target date for a new appropriation bill is not always met. When Congress has not approved the annual DOD appropriation action by the start of the fiscal year, it provides funding authority through a joint "continuing resolution" making interim appropriations available. The intent of the continuing resolution is to provide funds to maintain operations at a minimum level necessary for the orderly continuation of activities until regular appropriations are enacted.

A continuing resolution normally provides for amounts as may be necessary to continue operations in support of projects or activities which were conducted in the preceding fiscal year, at a rate of obligation not in excess of the previous year's rate, or the rate provided for in the President's budget, whichever is the lower or more restrictive. Operating officials throughout the funding chain must take administrative actions in consonance with limitations on rates of obligation while operating under continuing resolutions, i.e., the obligation authority granted constitutes administrative subdivisions of appropriated funds and is subject to the sanctions of Section 3679 of the Revised Statutes.

6. Apportionment and Budget Calls

An apportionment is defined as "a determination by the Director of the Office of Management and Budget (OMB) as

Congressional Budget Process Depicting Major Events That Occur During Congressional Review of Federal Budget

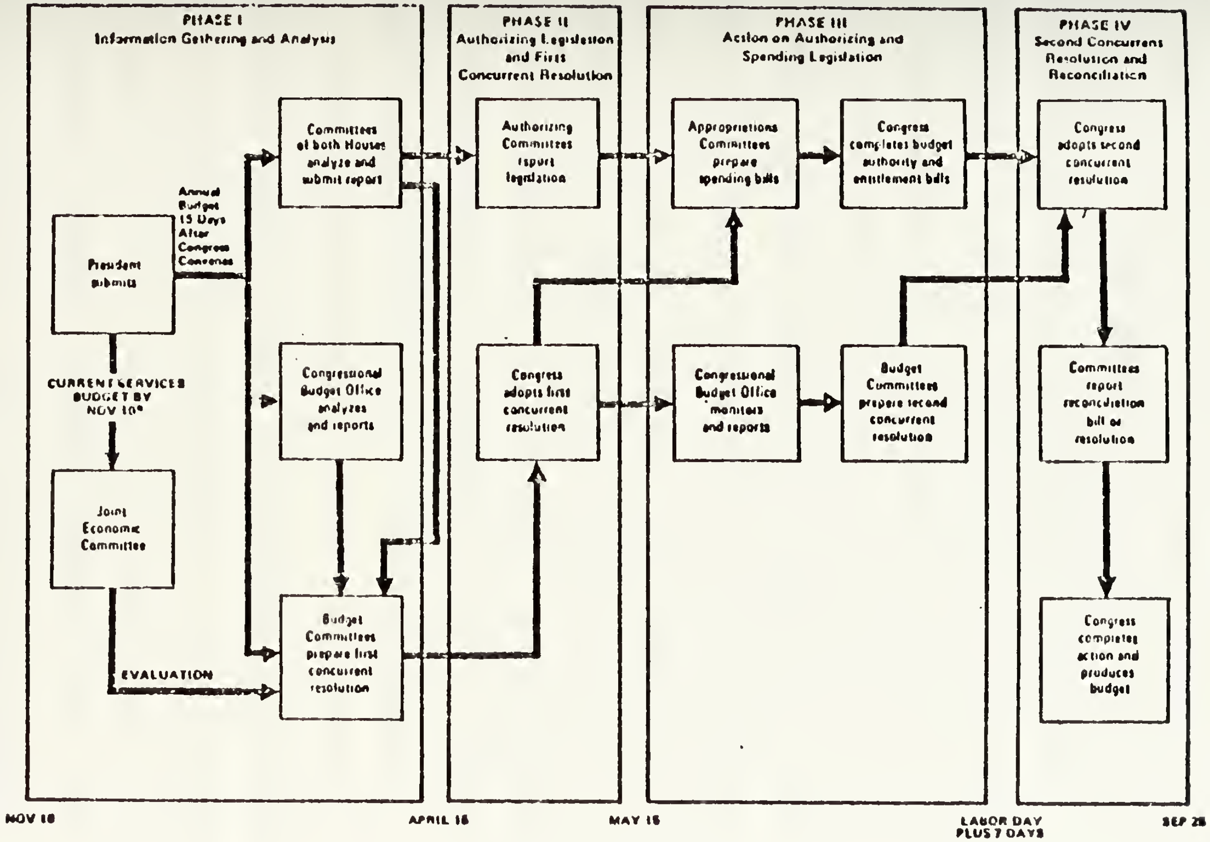


Exhibit 3-2

to the amount of obligations which may be incurred during a specified period under an appropriation, contract authorization, or other statutory authorizations, or a combination thereof, pursuant to Section 3679 of the Revised Statutes, as amended (31 U.S.C. 665)." This law prohibits any apportionment or reapportionment which would indicate a necessity for a deficiency or supplemental estimate except as requirements arise from laws enacted by Congress subsequent to the original budget request or from emergencies involving the safety of human life, protection of property, or certain other unusual circumstances (detailed report to Congress required).

The OMB has authority to apportion funds for all or any part of a fiscal year and for any program or other subdivision of an appropriation. Navy funds are generally apportioned at the appropriation level; that is, with no subdivision for programs or projects. Annual appropriations are usually apportioned on a quarterly basis, and multi-year and continuing appropriations on an annual basis.

The apportionment process is concerned mainly with establishing orderly rates of obligation to prevent or to minimize the need for supplementary appropriations resulting from obligating funds in excess of amounts appropriated. In recent years, however, the OMB having been given additional legislative authority, has increasingly used the process as an instrument to accomplish the broad objectives of national fiscal policy as well as to review detailed program

requirements. Apportionments thus are now used to establish reserves and to effect savings, in addition to establishing and authorizing rates of obligation.

As discussed in the previous section, the completion of the enactment of the appropriation may be delayed until sometime after the beginning of the fiscal year. This notwithstanding, the Assistant Secretary of Defense, Comptroller (ASD (COMPT)) requires the submission by early June of proposed operating budgets and financial plans for review in anticipation of the formal submission of an apportionment request based on the enacted appropriation. This phase of the budget cycle is commonly known as the "apportionment submission." At the field activity level, this process begins several months prior to October 1, e.g., submitted in the January-March time frame along with the initial budget for the fiscal year following the year of the apportionment request.

Normally, from the headquarters level hierarchically down the chain of command to shore commands, each level promulgates a request for budget estimates or a 'budget call'. This budget call contains detailed and specific guidance relating to the content and format desired to allow review, revision and consolidation at succeeding levels as the estimates flow from the field activity back to the headquarters level. The requirement for peculiar budget data by differing types of commands is recognized, but NAVSO P-3006-1 emphasizes the need to hold such additional requirements to an absolute

OPERATING BUDGET/EXPENSE REPORT

EXTERNAL SUBMISSION

U. S. Naval Activity Washington, D. C. 20390 UIC 66212	NAVSUPSYSCOM	☒ [illegible] ☐ [illegible]	☐ [illegible] ☐ [illegible]	30 June 1974
U. S. Naval Activity Washington, D. C. 20390 CIC 66212	NAVSUPSYSCOM	1791804.2320		

D1	1210	Administration	3,069	1,300	1,450	7,200	11,500	1,500	9,000		29,200
D1	1220	Internal Review	27	200	750	800	5,000	500			6,300
D1	1230	Budget and Statistics		1,000	6,000	6,000	41,000	2,000			49,000
D1	1240	Accounting	5,800	6,100	16,000	28,000	62,500	2,000			92,500
D1	1250	Payroll	6,825	8,000	18,000	41,000	91,000	4,000			136,000
D1	1210	Military Absence		1,000		5,000					5,000
		Subtotal "D1"		17,600	42,200	88,000	211,000	10,000	9,000		318,000
D2	1220	Internal Review			800		4,000				4,000
		Subtotal "D2"			800		4,000				4,000
		Total "D"		17,600	43,000	88,000	215,000	10,000	9,000		322,000
E1	8120	Steam and Hot Water	4,280	1,700	3,250	8,000	42,000	12,000	980		62,980
E1	8230	Purchased Electricity	1,642		2,020				2,020		2,020
E1	8240	Electricity, Distribution Systems	2,320	700	3,300	4,000	19,000	6,000	2,000		31,000
		Subtotal "E1"		2,400	8,570	12,000	61,000	18,000	5,000		96,000
E2	8240	Electricity, Distribution Systems								2,000	2,000
		Subtotal "E2"								2,000	2,000
		Total "E"		2,400	8,570	12,000	61,000	18,000	5,000	2,000	98,000
		Total Operating Expenses		20,000	51,570	100,000	276,000	28,000	14,000	2,000	420,000
		Less: Anticipated Reimbursables									6,000
		Total Direct Expenses									414,000
		Change in Unfilled Orders									+1,000
		Total Direct Operating Budget									415,000
		Memo Entries:									
		(1) Military Services Authority									100,000
		(2) New Obligational Authority									315,000

Exhibit 3-3(page 1 of 2)

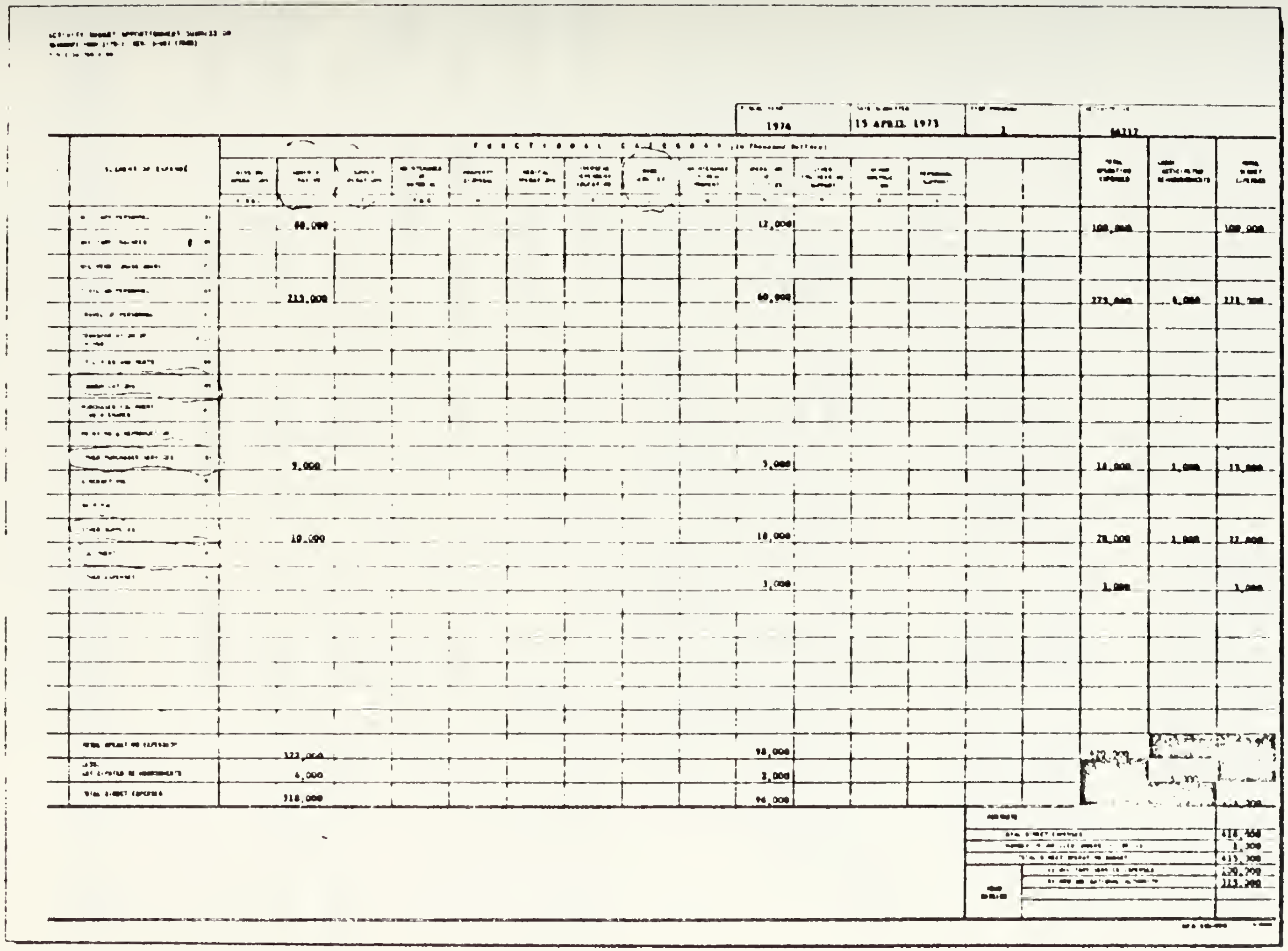
OPERATING BUDGET/EXPENSE REPORT

INITIAL SUBMISSION

COMPTROLLER	COMMANDING OFFICER	☒ ☐	☐ ☐	30 JUNE 1974
COMPTROLLER DEPT.		1791804.2520	COMPTROLLER	

Func/Sub Func Cat	Cost Account	Description	Work Units	Man Hours: Military	Man Hours: Civilian	Cumulative Expenses: Military Services	Civilian Labor	Material and Supplies	Commercial Contracts	Other	Total Expenses
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
D1	1C10	Administration	3,069	1,300	1,450	7,200	11,500	1,500	9,000		29,200
D1	1C20	Internal Review	27	220	750	800	5,000	500			6,300
D1	1C30	Budget and Statistics		1,000	6,000	6,000	41,000	2,000			49,000
D1	1C40	Accounting	5,600	6,100	16,000	28,000	62,500	2,000			92,500
D1	1C50	Payroll	6,825	8,000	18,000	41,000	91,000	4,000			136,000
D1	1C10	Military Absence		1,000		5,000					5,000
		Subtotal "D1"		17,630	42,200	88,000	211,000	10,000	9,000		318,000
D2	1C20	Internal Review			600		4,000				4,000
		Subtotal "D2"			800		4,000				4,000
		Total "D"		17,600	43,000	88,000	215,000	10,000	9,000		322,000

Exhibit 3-3(page 2 of 2)



1974	15 APRIL 1973	1	66112

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	88,000	12,000	100,000		100,000
[illegible]	213,000	60,000	273,000	6,000	[illegible]
[illegible]	9,000	5,000	14,000	1,000	13,000
[illegible]	19,000	10,000	28,000	1,000	[illegible]
[illegible]		3,000	3,000		3,000
[illegible]	323,000	98,000	[illegible]	[illegible]	[illegible]
[illegible]	6,000	2,000			
[illegible]	318,000	96,000			

Exhibit 3-4

minimum. Generally, field activities will normally prepare their budget and apportionment submissions in three formats as described below:

a. By cost center and budget classification code,[9] functional/subfunctional category, and cost account thereunder. The budget by cost center is submitted on Operating Budget/Expense Report (NavCompt Form 2168) and is for internal use in management and control.

b. By responsibility center and budget classification code, functional/subfunctional category and cost account thereunder. This format is prepared on Operating Budget/Expense Report (NavCompt Form 2168) and is for submission to higher authority.

c. By functional/subfunctional category and expense element. This budget format is prepared on Activity Budget/Apportionment Submission (NavCompt Form 2179-1) and is for submission to higher authority. A separate NavCompt Form 2179-1 will be prepared for each budget classification code when required by major claimant and/or operating budget grantor.

Examples of NavCompt Forms 2168 and 2179-1 addressed above are depicted in Exhibits 3-3 and 3-4. Budget classification codes, functional/subfunctional categories, cost account codes and expense elements will be defined in the next section.

In effect, the process of reviewing, apportionment submissions is similar to that for the budget formulation phase except that the time frame is shorter. The Comptroller

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[9] Budget Classification Codes are being replaced with Activity Groups and Sub-Activity Group Codes.

of the Navy guides the preparation of apportionment requests and supporting materials (as described above), reviews the estimates of the various DON components and makes the formal submission to the SECDEF (OSD). At the conclusion of the reviews, analysis, hearings and determinations (by SECNAV, ASD (COMPT), OSD, OMB) as to approved funding for all appropriations, ASD (COMPT) provides SECNAV with appropriate documentation of obligation authority, based either on enacted appropriations or on a continuing resolution.

In conclusion, apportionment controls the rate at which appropriated funds are obligated. The process is intended to release only those funds required to meet the latest plans and to prevent obligations and expenditures in excess of available amounts. As a result of the apportionment process, O&M,N annual appropriations are divided into four quarterly limits, not necessarily of equal amounts. The field comptroller, thereby, receives funds in quarterly amounts. The primary purpose, again, being to control the rate at which funds are used.

7. Data Element Definitions.

a. Budget Classification Codes (BCC) reflect the primary breakouts of financial data used by financial managers in the budgeting, management, and accounting for expenses and/or gross adjusted obligations contained in operating budgets and financed by appropriation. Use of these codes enable financial managers to accumulate costs and gross adjusted obligations in the same terms in which they formulate, justify, and execute operating budgets.

b. Functional and Subfunctional categories (FC/SFC) are subdivisions of Budget Classification Codes and are designed to collect expenses by function, such as administration and mission operations.

c. Cost Account Codes (CAC) are established to classify transactions according to their purpose and will also be used to identify uniformly the contents of management report requirements. Appropriate functional and subfunctional categories are used in conjunction with cost account codes. Cost Account Codes are considered to be the building blocks of the budget.

d. Expense Elements identify expenses as to type and are identified to a BCC, FC/SFC and CAC.

8. <u>Allocations and Operating Budgets</u>

a. An allocation is an authorization by the Comptroller of the Navy making funds available within a prescribed amount to an operating agency for the purpose of making allotments; i.e., it is the first subdivision of an apportionment. The primary purpose is to ensure that congressional intent is followed for budget activities and programs below the appropriation level.

b. A suballocation is a transfer or delegation to the head of another office, bureau, or command of some portion of the authorization granted to the allocation holder. The suballocation document states that all financial control, jurisdiction of, and responsibility for amounts allocated are passed to the recipient.

c. An allotment is an authorization granted within and pursuant to an allocation or suballocation for the purpose of incurring commitments, obligations and expenditures. Allotments are not used for appropriations administered under the Resources Management System (RMS) concept, such as the O&M,N Appropriation.

d. The Operating Budget (EOB) under the RMS concept consists of an approved operating plan which is the basis of authorization and financial control of resources available for the execution of program(s) of the indicated command level. It includes direct program costs, approved reimbursable programs and military expense authority. Footnotes state the nature and amount of all administrative and statutory limitations. These limitations will be discussed later in this chapter.

e. An Operating Target (OPTAR) is a planning estimate which provides a mechanism for measuring performance of subordinate commands or departments of activities which hold operating budgets. The OPTAR grantor retains the responsibility for administrative control of funds.

9. Flow of Funds

The appropriation act enacted by Congress and signed by the President is implemented through the issuance, by the Department of the Treasury, of Appropriation Warrants. These warrants, countersigned by the General Accounting Office (GAO) are forwarded to the DON as certification that the specified

amounts are available for obligation and expenditure. Fund availability is established through compliance with procedures for submission, review, and OSD/OMB approval of apportionments as previously explained. In conjunction with the apportionment procedure, ASD (COMPT) establishes the authorized level of obligation and expenditure for each Navy appropriation, as well as any controls or limitations required below the appropriation level, as a means of requiring compliance with the terms of approved programs and budgets.

All Navy funds, except for Research, Development, Test and Evaluation (RDT&E) funds, flow through the office of the CNO, which acts as the Responsible Office for these appropriations. Thus, the CNO's Comptroller (OP-92) administers the funds. The CNO reallocates O&M,N funds to major claimants who in turn issue EOBs to field activities, often via a subclaimant or an Expense Limitation Holder. Operating Budget holders often issue OPTARs to their various cost centers (an organizational entity for which identification of costs is desired and which is amenable to cost control through one responsible supervisor). The overall flow of funds can be depicted as shown in Exhibits 3-5 and 3-6.

10. Limitations

There are two basic types of limitations imposed in fund allocations. One type is a statutory limitation (fiscal constraints on the obligation and expenditure of appropriated funds which are imposed by restrictions stated in law); the

APPORTIONMENT / ALLOCATION CYCLE

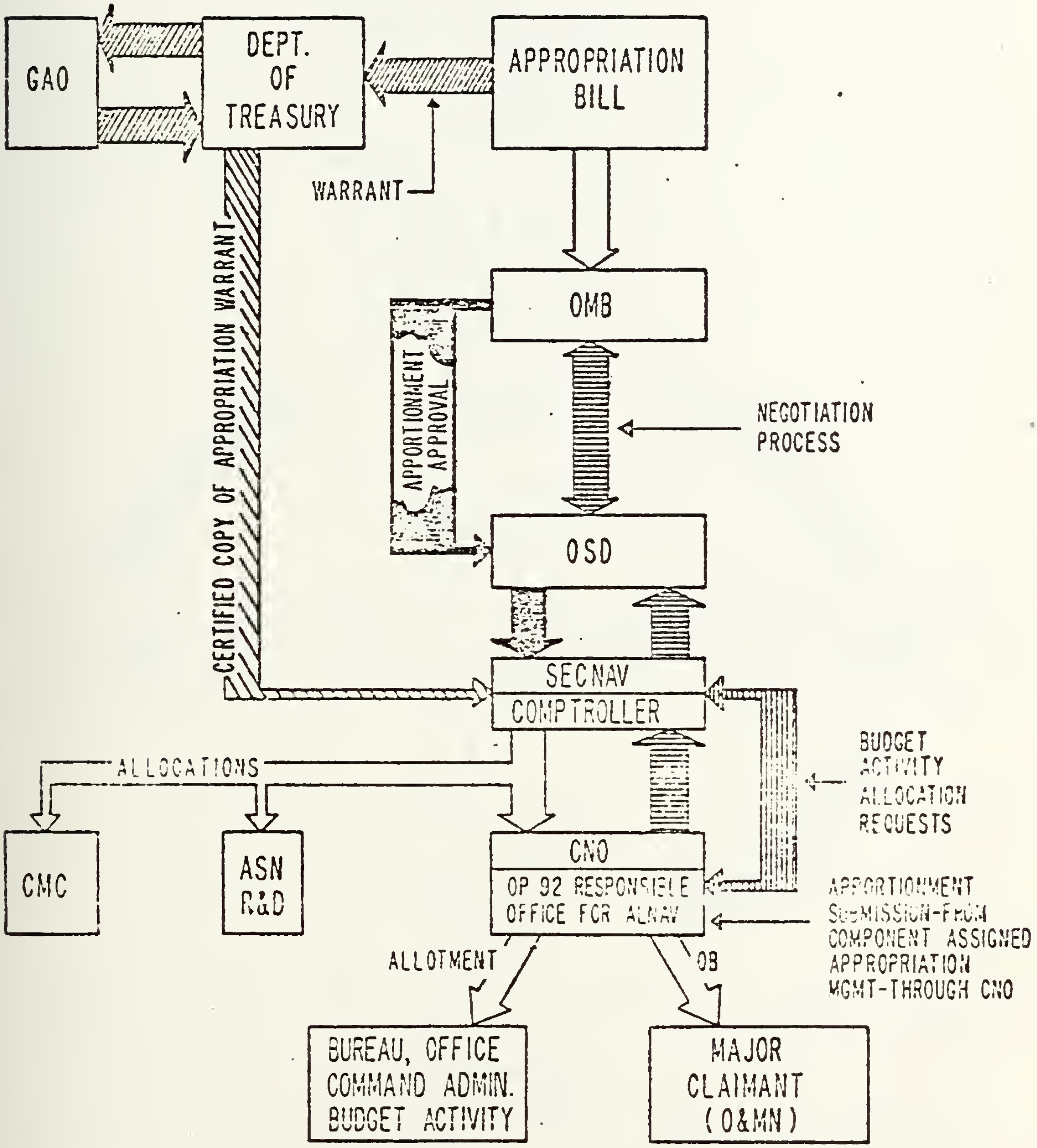


Exhibit 3-5

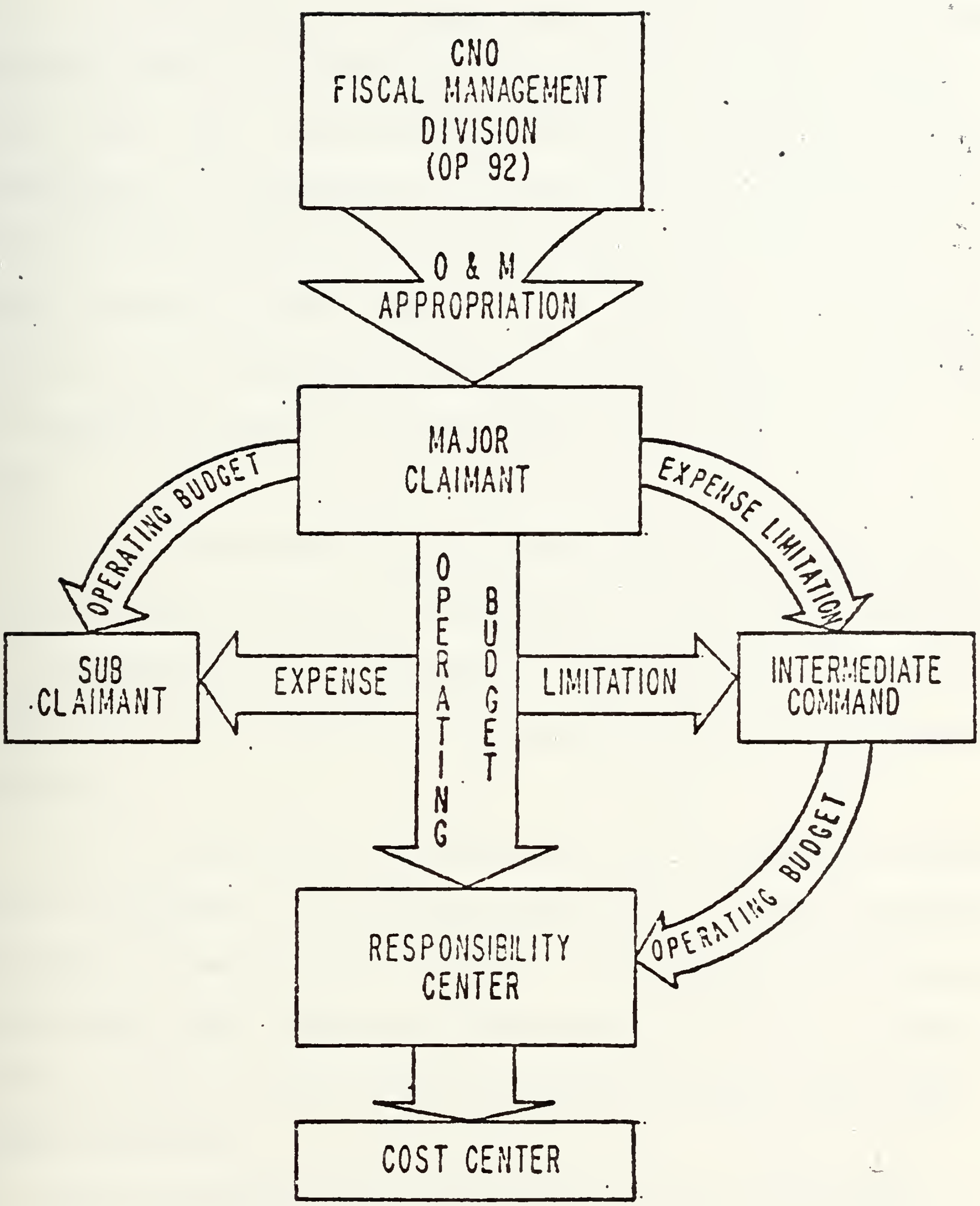

CNO
FISCAL MANAGEMENT
DIVISION
(OP 92)
O & M
APPROPRIATION
MAJOR
CLAIMANT
OPERATING BUDGET
EXPENSE LIMITATION
OPERATING
BUDGET
SUB
CLAIMANT
EXPENSE
LIMITATION
INTERMEDIATE
COMMAND
OPERATING BUDGET
RESPONSIBILITY
CENTER
COST CENTER

Exhibit 3-6

other is of the type imposed by the grantor at any level as funding authority is passed to subordinates.

a. Statutory Limitations

The major statutory limitation is that contained in Section 3679 of the Revised Statutes (R.S.), as amended (31 U.S. Code 665), which prohibits any act which will cause an obligation or expenditure in excess of the apportionment. This law, often referred to as the "Anti-Deficiency Act," is probably the most single important law affecting the Commanding Officer of a field activity in the execution of his financial responsibilities. Its principal provisions are as follows:

(1) It prohibits any officer or employee from making or authorizing an obligation in excess of the amount available in an appropriation or in excess of the amount available in an appropriation or in excess of the amount permitted by agency regulations.

(2) It provides that the person who caused the violation may be subject to discipline which may include suspension without pay or removal from office. If action is done knowingly and willfully, that person may be subject to criminal penalties of a fine of up to $5,000 or imprisonment for not more than two years, or both.

(3) It forbids the involvement of the Government in any contract or obligation to pay money in advance of appropriation.

It requires apportionment by months, quarters, or other regular periods, or by activities or functions, or a combination of both methods.

(5) It requires the head of each agency to issue regulations establishing an administrative control system with a dual purpose: first, to keep obligations within the amount of apportionment; and second, to enable the agency to fix responsibility for the making of an obligation in excess of the apportionment.

Pursuant to this requirement, the DOD issued regulations titled, "Administrative Control of Appropriations Within the Department of Defense." Under these regulations, Commanding Officers of field activities must ensure that all affected subordinates are made aware of the penalty provisions of this statute and Section 3678 (R.S.) (described below), as well as of all current DON directives pertaining to the administration of funds.

Another significant statutory limitation is contained in Section 3678 of the Revised Statutes (31 U.S. Code 628). This provision of law dealing with the application of monies appropriated by Congress requires that these funds be used only for the programs and purposes for which the appropriation is made. The law states: "Except as otherwise provided by law, sums appropriated for the various branches of expenditure in the public service shall be applied solely to the objects for which they are respectively made, and for no

others." In addition certain other provisions of law, which must be administered as limitations, establish the maximum or minimum amount which may be used under an appropriation or appropriations for specified purposes. These limitations include such items as: the ceiling imposed in the Department of Defense Appropriation Act on the amount available for the operation of overseas dependent schools; the amount available in the O&M,N Appropriation for emergency and extraordinary expenses; and the floor established in the O&M,N Appropriations for maintenance of real property (MRP) facilities.

b. Limitations Imposed by Grantor

Other limitations or constraints on financial authority may be imposed by the grantor at any level as further subdivisions of funds are made to the next subordinate level. These constraints may be separated into two major divisions: those which carry the applicability of statutory constraints, under Sec. 3679 R.S., as specific and absolute limitations; and those which are not subject to legal limitations, but are stated in terms of advisory guides to the recipients, allowing options or an amount of flexibility in the use of funding.

The legal constraints imposed carry firm dollar limitations established by either program categories, cumulative quarterly limitations by program category or budget activity, or other limitations on items of interest to Congress or some command or management level. These substantive

limitations may not be levied unless they are extensions of identical restrictions imposed by the preceding funding authority or have the documented approval of that authority. Specific legal limitations applicable to EOBs include:

New Obligational Authority (NOA) - The new obligational authority, provided in the Resource Authorization (NAVCOMPT Form 2168-1) and financed by the current year operation and maintenance appropriation is a limitation, on a cumulative quarterly basis, subject to the provisions of Sec. 3679, R.S.

Reimbursable Obligational Authority - The acceptance of funded reimbursable orders automatically increases the amount available for obligations within the operating budget; but this reimbursable obligational authority is limited to the amount authorized in reimbursable orders.

Other - Limitations such as the floor established by Congress in the operation and maintenance appropriation for maintenance of real property (MRP) facilities. If any of the stated minimum amount issued was utilized for other purposes, thereby obligating funds greater than authorized for the other purposes, a Section 3679 R.S. violation would occur.

Restrictions not subject to legal limitations, stated as advisory guides, may be imposed on a subordinate level without the authorization of a higher funding level (according to the NAVCOMPT Manual Vol. VII). However, the use of such restrictions should be limited to situations where normal management type reporting cannot accomplish the desired

control of expenses. NAVSO P-3006-1, on the other hand, indicates that the imposition of a restriction which does not stem directly from one imposed by a higher level of command <u>will</u> require the approval of the next higher level of command prior to its imposition. An example might be the restriction that the stated amount for material disposal may not be used for any other purpose without prior approval.

11. Summary of Budget Execution in General

The chapter, so far, has presented a brief overview of budget execution within the DOD and DON. The emphasis has been on general procedures and practices with the focus being on the headquarters level. The purpose was to provide the reader with a picture of how funds are made available to the field activity. The next section of the chapter will address itself primarily to field activity level practices and procedures in regard to management control and budget execution relating to the funds provided pursuant to the O&M,N Appropriation.

C. MANAGEMENT CONTROL AND BUDGET EXECUTION

1. Overview

The commanding officer of a shore activity is overall responsible for all aspects of the operation of his or her command. The accomplishment of the mission in the most efficient, effective and economical manner is a significant part of that responsibility. Inherent in this aspect of command responsibility is the requirement for sound financial

management and prudent administration of allocated funds. The regulatory basis for the commanding officer's responsibility for financial management is found in paragraph 0702.1 of Navy Regulations which states:

> The commanding officer shall be responsible for economy within his command. To this end he shall require from his subordinates a rigid compliance with the regulations governing the receipt, accounting, and the expenditure of public money and materials, and the implementation of improved management techniques and procedures.

Financial management policy for Navy shore activities is provided in NAVSO P-3006-1, as well as in directives and/or other guidance provided by applicable major claimants. Essentially, the general policy stresses the need to derive maximum benefit from each dollar spent. Effective use of financial plans, cost and performance reports, and other financial reports is emphasized; this will enable financial managers, directives state, to detect problem areas, identify inefficient use of resources and reallocate resources consistent with sound financial management policies.

The vast majority of guidance in existence in regard to budget execution at shore activities addresses the administration of funds. Particular emphasis is placed on legal constraints and potential violations, reporting structures and formats, and accounting procedures. The primary responsibilities of command in regard to the administration of funds are listed by one major claimant as:

a. That financial transactions are not incurred in excess of fund availabilities. Accordingly, it is necessary to maintain adequate controls which permit the recording of all financial liabilities as they occur. Sec. 3679 (R.S.) refers.

b. That funds be used only for the purpose for which they are appropriated. Sec. 3678 (R.S.) refers.

c. That unliquidated obligations be periodically reviewed to ensure that only valid transactions remain on financial records and reports. Sec. 1311 of Public Law 663 (31 U.S. Code 200(a)) refers.

d. That reimbursement is requested and provided for services rendered only when they are beyond mission responsibilities.

e. That a command line of communication is maintained relative to financial requirements, that shortfalls and excesses are properly addressed to permit maximum effective and efficient use of available funds.

f. That an effective internal review program be implemented to aid the fund administrators in assessing the fidelity with which prescribed procedures are being followed for the accounting and expenditures of appropriated (and nonappropriated) funds.

A second major claimant lists the field activity's role in the budget execution process as: to provide accurate historical data and the best available information on future costs; to operate within the general staffing and dollar limitations imposed in the financial operating plan and; to advise the major claimant of emerging resource problems at the earliest possible time. The "Financial Management Guidebook for Commanding Officers" lists a commander's financial responsibilities as: accomplish your mission at the lowest cost; budget for your needs; plan your work; work your plan; never overspend; keep track of how you spend and; keep checking against your plan.

The emphasis in the examples cited, as well as in the other directives reviewed by the author, is on the fiduciary features of budget execution. Particular importance is directed toward the need to execute the budget without violating the statutory limitations imposed by the Congress. Guidance relating to equal management control practices and procedures generally takes the form of requiring field activity commanding officers to develop internal procedures which will ensure the efficient and effective use of available resources in fulfilling the command's mission. In this way, directives intimate, commanding officers have a maximum degree of flexibility to exercise their prerogative in regard to the financial management aspects of command responsibility. Specific guidance is provided, however, on the form and content of operating budgets and Navy-wide performance reports in accordance with the RMS (discussed in the next section of this chapter).

NAVSO P-3006-1, the primary document addressing resources management at shore activities, states that operating budgets and performance reports will be the primary means of management and financial control at the activity level. Performance reports will include financial monetary data and, at the option of the operating budget grantor, nonfinancial (work unit) output measures. Reports of performance will compare actual output and expenses with planned output and expenses and will direct attention to significant differences

and the reasons therefor. Continued analysis of financial plans versus the monthly management reports, both in terms of monetary and quantitative data, will enable, claims one type commander, effective and efficient financial management of resources. NAVSO P-3006-1, in addressing this type of performance review, contains the following comments regarding operating budgets:

> Operating budgets are a significant aspect of the total resource management system. The planning and estimating of an operating budget must be thorough. The measurement and control of the execution of the operating budget against the plan by the commanding officer must be equally thorough. Commanding officers should establish internal reporting procedures for cost center budget execution which will disclose on a timely basis:
>
> 1. actual costs compared to the plan,
>
> 2. significant variance in actual costs,
>
> 3. the reasons for the variances, and
>
> 4. the status of the total operating budget.
>
> Within the authorized flexibility of the operating budget, the commanding officer should, after analysis of the budget and accounting reports, take action to adjust the planned operating budget to recognize the actual cost situation and to make appropriate shifts between programs and/or cost centers. Variations in programs from original cost estimates should be carefully analyzed and the applicable programs should be revised to recognize the analytical results.

The budget execution function progresses at shore commands within the framework of an overall financial management system. Subsequent sections will provide a summary of the significant aspects of the system in force.

2. RMS

Efforts to improve management at all levels in the DOD during the 1960's led Dr. Robert N. Anthony, then ASD (COMPT), to develop the RMS. RMS is a series of systems designed to promote better management throughout the DOD by providing managers with improved means of obtaining and controlling the resources required to accomplish missions. Essentially, it includes all procedures for collecting and processing recurring quantitative information that relates to resources and is for the use of management. RMS consists of four interrelated subsystems:

a. Programming and budgeting

b. Management of inventory and similar assets

c. Management of resources for operating units

d. Management of acquisition, use and disposition of capital assets.

The subsystem most applicable to execution of the O&M,N Appropriation at shore activities is the one dealing with management of resources for operating units. The basic objectives of this subsystem are:

a. To provide managers at the responsibility center and subordinate levels a system which includes the monetary and quantitative information that will enable them to effectively and efficiently manage resources made available;

b. To furnish operating budget grantors and other levels of management up to and including the Navy Comptroller that degree of financial information necessary for effective coordination and control of resources; and

c. To determine the cost of operation of an activity in terms of total resources consumed or applied.

Through the use of an approved operating budget that includes the cost of all resources, in lieu of allotments as the authorization for use of resources, the activity is permitted greater flexibility and discretion in the application of resources to mission accomplishment.

RMS was introduced to the Navy through a Priority Management Effort (PRIME) in fiscal year 1968. Under PRIME, the following uniform concepts were initiated:

a. Accrual accounting, by which an activity is charged for resources at the time they are consumed.

b. Total costing of an activity, whereby all costs of an activity are managed, including such diversified costs as military personnel and minor construction.

c. The provision that work units may be assigned to the smallest increments of an activity. These work units become part of the annual budget and are reported monthly by the performing offices.

The requirement for the costing of military personnel, previously considered to be a 'free' asset, was a major change in accounting principles. The other major area influenced was appropriation accounts in that procurement costs (investment items) were separated from operating costs (expense items). Thus, the costs over which a manager can exercise discretionary control (i.e., operating costs) were differentiated from those over which the manager has little control (i.e., procurement costs).

To standardize the costing of resources throughout the Navy, an expense account structure was implemented. Thus, the financial management system in use is designed around one basic account structure to provide complete integration of budgeting, accounting and reporting. The data elements defined earlier in this chapter (BCC, FC/SFC, CAC, E/E), along with output measurements (work units), Five Year Defense Program (FYDP) Budget Activities and Program Elements, are basic to the accumulation and reporting of management information under the system. The work unit or output measurement is an especially vital part of RMS for operations. Each cost account normally has or should have a unique measurement of output in the form of a work unit which can be used to measure performance or, in conjunction with related input, can be used to measure productivity.

The intent of the RMS for operations is to provide the cost center and responsibility center managers with reports of financial and quantitative information which will enable them to expeditiously determine: variances from plans; specific areas causing the variances; areas where workload is increasing or decreasing and; areas of reduced or increased efficiency. Additionally, it will arm managers with the tools necessary to initiate corrective action to effect efficient utilization of available resources. The system also furnishes higher echelon managers with the information necessary for financial control in the broader spectrum. The

subparagraphs that follow will discuss various specific aspects of the system.

a. Job Order Structure

Activities accounting for EOB are required to develop a locally prescribed job order structure which provides for the accumulation of expenses at the BCC, FC/SFC and CAC level, and, when such information is not derived by other methods, the EE level. It also should provide details of cost at any level desired by local management through the use of Local Management Codes (LMC). A sample job order code is displayed in Exhibit 3-7.

	SAMPLE JOB ORDER CODE
F3	Budget Classification Code (Station operations)
N	Functional Category (Utility operations)
1	Subfunctional Category (General)
8210	Cost Account (Electrical Utility, Generating)
0	Fiscal Year '80
01	Job Order Serial Number
XXXX	Additional Spaces for Local Management Codes

Exhibit 3-7

b. Authorization Accounting Activity (AAA).

Although not a part of the RMS per se, an understanding of the purpose and functions of an AAA is indispensable to the understanding of the budget execution process. Therefore, the functions of an AAA and its relationship to the supported command will be explained.

In the interests of using the best qualified personnel and of economy, the accounting for a shore activity is normally performed by a fiscal office that is an organizational component either of the same activity or of another activity designated to provide accounting. The activity that is assigned the accounting responsibility is called the 'accounting activity' and the activity for which the accounting is being performed, the 'dependent activity.'

The accounting relationship that exists between the fiscal office and the dependent activity is the same as if the fiscal office were a component of the dependent activity, except that command and administrative channels inherent in each of the two activities must be observed. The functions of official accounting responsibility include, but are not limited to: appropriation accounting, inventory accounting, plant property accounting, cost accounting, and payroll accounting.

It is the responsibility of accounting activities to comply with accounting instructions issued by appropriate authority. Accounting activities also are expected to comply with all reasonable requests of dependent activities for further accounting and for the furnishing of reports.

c. RMS Records and Files

Accounting records required are made up of ledgers, journals, basic cost records and control records. The numbers and kinds of documentation required depend on the type

and volume of transactions, the desires of the grantor of the operating budget and the nature and level of the responsibility center's (i.e., the command's) mission and organization.

To supplement the records, certain files are required, including: Undelivered Orders/Outstanding Obligations; Accounts Payable; Travel Advances Outstanding; Funds Disbursed; and Consignments. Additionally, the following records of original entry are required by NAVCOMPT in order to accumulate expenses: General Ledger; Reimbursable Work Order Record; Cash Disbursement Journal; Reimbursable Orders Received Journal; Job Order Cost Summary; Civilian Labor Distribution by Reimbursable Work Order; Military Services Distribution by Job Order; Material Distribution by Job Order and; Material Distribution by Reimbursable Work Order.

d. RMS Reporting

As reporting is a form of responsibility accounting, RMS has provided a series of reports which are used at various levels of management. Financial reports submitted provide the data for appropriation accounting. Timely status reporting to the command and to field activity operating managers comprise a key ingredient for effective budget execution. The two primary fiduciary reports are the Trial Balance Report (NAVCOMPT Form 2199), which provides the current fiscal year status of all funds received by O&M,N funded activities, and the Budget Classification Code/Functional

Category/Expense Element Report (NAVCOMPT Form 2171), which both provides charges to the budget categories indicated in the title of the report and feeds into the Navy Cost Information System (NCIS). Examples of these monthly reports are presented in Exhibits 3-8 and 3-9.

The management-oriented reports under RMS reporting are the Operating Budget/Expense Report (NAVCOMPT Form 2168), which monthly compares budgeted and actual expenses to date at the detailed cost account level, and the Performance Statement (NAVCOMPT Form 2169), which monthly shows actual expenses to date by purpose and type of cost at detailed cost account levels. These two reports, examples of which are shown in Exhibits 3-10 and 3-11, are consolidated in the Uniform Management Report (UMR) System. The UMR is addressed in the next section.

The Military Service Report (NAVCOMPT Form 2162) is a monthly report which permits analysis of the utilization of Military Personnel, Navy Appropriation (MPN) funds in terms of military personnel expense. The report shows the on-board strength of officer and enlisted personnel as of the first day of the month, costed at standard rates provided by NAVCOMPT. An example of this report is shown in Exhibit 3-12.

3. Uniform Management Report System (UMR)

The UMR system was initiated by NAVCOMPT to consolidate the two local management reports (Operating Budget/Expense Report, NAVCOMPT Form 2168 and Performance Report, NAVCOMPT

NAVCOMPT FORM 2199 (REV. 9-74)
S/N 0104-LF-702-1990

TRIAL BALANCE REPORT

Appropriation	UIC	From	UIC	To	UIC	Reporting Period	Page of
1761804	2120	U.S. Naval Activity Washington, D. C.	66212	Naval Material Command Support Activity (Code 1228) Washington, D. C.	65872	31 July 1975	01 of 03
U.S. Naval Activity Washington, D. C.	66212					NAVSUPSYSCOM	00021

Account Number and Title	Balances Prior Month Debit	Balances Prior Month Credit	Balances Current Month Debit	Balances Current Month Credit	Changes for Month Debit	Changes for Month Credit
(a)	(b)	(c)	(d)	(e)	(f)	(g)
Assets						
1031 Allotments/Operating Budgets Authorized			65,000.00		65,000.00	
1060 Funds Disbursed				13,775.00		13,775.00
1100 Accounts Receivable - U.S. Government Agencies			500.00		500.00	
1110 Accounts Receivable - Automatic - Billed			175.00		175.00	
1111 Accounts Receivable - Automatic - Billed - Intra-Appropriation			175.00		175.00	
1120 Accounts Receivable - Automatic - Unbilled			325.00		125.00	
1121 Accounts Receivable - Automatic - Unbilled - Intra-Appropriation			325.00		325.00	
1512 Travel Advances			160.00		100.00	
1810 Reimbursable Orders Received - Automatic			1,075.00		1,075.00	
1811 Reimbursable Orders Received - Automatic - Intra-Appropriation			1,075.00		1,075.00	
1910 Deferred Charges			1,000.00		1,000.00	
1930 Undistributed Expenses			100.00		100.00	
Total Assets			67,775.00	13,775.00	67,775.00	13,775.00
Total						

I certify that the amounts ... in accordance with 31 U.S.C. 200 and ... accounting ...

Reporting Fiscal Officer (Signature and Date)

Exhibit 3-8(page 1 of 3)

TRIAL BALANCE REPORT

(CONTINUATION SHEET)

1761804	2320		66212	66212	65872	00023

PAGE 02 OF 03

31 July 1975

ACCOUNT NUMBER AND TITLE (1)	BALANCES PRIOR MONTH DEBIT (2)	BALANCES PRIOR MONTH CREDIT (3)	BALANCES CURRENT MONTH DEBIT (4)	BALANCES CURRENT MONTH CREDIT (5)	CHANGES FOR PERIOD DEBIT (6)	CHANGES FOR PERIOD CREDIT (7)
Liabilities						
2000 Accounts Payable - U.S. Government				3,170.00		3,170.00
2010 Accounts Payable - Direct - U.S. Gov't				2,970.00		2,970.00
2050 Accounts Payable - Reimbursable - U.S. Gov't				200.00		200.00
2100 Accounts Payable - Public				11,630.00		11,630.00
2140 Accounts Payable - Direct - Public				11,393.00		11,399.00
2150 Accounts Payable - Reimbursable-Public				231.00		231.00
Total Liabilities				14,800.00		14,800.00
Investments						
3211 Uncommitted/Unobligated Authorization - Direct Program				28,625.00		28,625.00
3212 Uncommitted/Unobligated Authorization - Reimbursable Program				500.00		500.00
3210 Undelivered Orders - Direct Program				9,400.00		9,400.00
3211 Undelivered Orders - Direct Program - Other than Maintenance of Real Property				9,400.00		9,400.00
1212 Undelivered Orders - Reimbursable Program				75.00		75.00
3233 Undelivered Orders - Reimbursable Program - Intra-Appropriation				75.00		75.00
3110 Accrued Expenses - Direct Program				27,225.00		27,245.00
1311 Accrued Expenses - Contra			37,775.00		37,775.00	
1120 Accrued Expenses - Reimbursable Program				550.00		550.00
3130 Accrued Expenses - Military Personnel				10,000.00		10,000.00
4010 Income - Automatic Sources				500.00		500.00
4011 Income - Automatic Sources - Intra-Appropriation				500.00		500.00
5010 Cost of Work or Services for Others - Current Year			500.00		500.00	
5020 Cost of Work or Services for Others - Prior Year 1st			25.00		25.00	
5030 Cost of Work or Services for Others - Prior Year 2nd			25.00		25.00	
5310 General Expenses - Military Personnel			10,000.00		10,000.00	
TOTAL						

Exhibit 3-8(page 2 of 3)

NAVCOMPT FORM 2199A (REV. 9-74)
S/N 0104-LF-702-1995

TRIAL BALANCE REPORT

(CONTINUATION SHEET)

Page 03 of 03

31 July 1975

1761804	2120		66212	66212	65872	00023

Account Number and Title (1)	Balances Prior Month Debit (2)	Balances Prior Month Credit (3)	Balances Current Month Debit (4)	Balances Current Month Credit (5)	Changes for Period Debit (6)	Changes for Period Credit (7)
5321 General Expenses-Other-Current Year			24,875.00		24,875.00	
5322 General Expenses-Other-Prior Year 1st			200.00		200.00	
5323 General Expenses-Other-Prior Year 2nd			50.00		50.00	
5324 General Expenses-Maintenance of Real Property-Current Year			2,000.00		2,000.00	
Total Investments			75,450.00	76,875.00	75,450.00	76,875.00
Memorandum/Budgeting Accounts						
9611 Accounts Receivable-Other than Automatic-Billed-Intra Appropriation			800.00		800.00	
9631 Reimbursement Income-Other than Automatic-Intra Appropriation				800.00		800.00
9951 Expense Availability-Direct Program and Military Personnel			56,775.00		56,775.00	
9952 Expense Availability-Reimbursable Program			575.00		575.00	
9961 Budgeted Expense Availability-Direct Program				64,000.00		64,000.00
9962 Budgeted Expense Availability-Reimbursable Program				1,125.00		1,125.00
9963 Budgeted Expense Availability - Military Program				30,000.00		30,000.00
9991 Military Personnel Resources Available			30,000.00		30,000.00	
9994 Military Personnel Authority				20,000.00		20,000.00
9995 Military Personnel Services Applied				10,000.00		10,000.00
Total Memorandum/Budgeting Accounts			88,150.00	125,925.00	88,150.00	125,925.00
Grand Total			231,375.00	231,375.00	231,375.00	231,375.00
Statistical Accounts						
0915 Consignments			4,000.00		4,000.00	
0949 MRP Gross Adjusted Obligations			2,000.00		2,000.00	
0998 Gross Adjusted Obligations-Direct			36,375.00		36,375.00	
0999 Gross Adjusted Obligations-Reimbursable			575.00		575.00	
Total Statistical Accounts			42,950.00		42,950.00	
Total						

I certify that the amounts herein reported are in accordance with ... and ... accounting procedures

Reporting Fiscal Officer (signature and rank): A. B. See
A. B. SEE, CDR, USN

Date: 11 Aug 1975

Exhibit 3-8(page 3 of 3)

NAVCOMPT FORM 2171 (REV 1-72) NAVCOMPT 7000-11

BUDGET CLASSIFICATION/FUNCTIONAL CATEGORY/EXPENSE ELEMENT REPORT

APPROPRIATION DATA	FOR PERIOD ENDED	OB IDENTIFICATION:
1731804.2320	31 July 1972	66212
FROM: U. S. Naval Activity, Washington, D. C., UIC 66212	TO: Naval Material Command Support Activity (Code 1228) Washington, D. C. 20360	OB APPROVED FOR: 66212 CHARGEABLE UNIT IDENTIFICATION CODE: 66212

CODE		EXPENSES		GROSS ADJUSTED OBLIGATIONS	
		CURRENT MONTH	F.Y.T.D.	CURRENT MONTH	F.Y.T.D.
* F3D1A		10,000.00	10,000.00	---	---
F3D1Q		---	---	9,400.00	9,400.00
F3D1T		1,925.00	1,925.00	1,675.00	1,675.00
F3D1U		23,200.00	23,200.00	23,200.00	23,200.00
F3D1	SUBTOTAL	35,125.00	35,125.00	34,275.00	34,275.00
F3DZT		250.00	250.00	275.00	275.00
F3DZU		300.00	300.00	300.00	300.00
F3DZ	SUBTOTAL	550.00	550.00	575.00	575.00
F3D A		10,000.00	10,000.00	---	---
F3D Q		---	---	9,400.00	9,400.00
F3D T		2,175.00	2,175.00	1,950.00	1,950.00
F3D U		23,500.00	23,500.00	23,500.00	23,500.00
F3D	SUBTOTAL	35,675.00	35,675.00	34,850.00	34,850.00
F3 A		10,000.00	10,000.00	---	---
F3 Q		---	---	9,400.00	9,400.00
F3 T		2,175.00	2,175.00	1,950.00	1,950.00
F3 U		23,500.00	23,500.00	23,500.00	23,500.00
F3	TOTAL	35,675.00	35,675.00	34,850.00	34,850.00
F4M1T		1,500.00	1,500.00	1,500.00	1,500.00
F4M1U		500.00	500.00	500.00	500.00
F4M1	SUBTOTAL	2,000.00	2,000.00	2,000.00	2,000.00
F4M T		1,500.00	1,500.00	1,500.00	1,500.00
F4M U		500.00	500.00	500.00	500.00
F4M	SUBTOTAL	2,000.00	2,000.00	2,000.00	2,000.00
F4 T		1,500.00	1,500.00	1,500.00	1,500.00
F4 U		500.00	500.00	500.00	500.00
F4	TOTAL	2,000.00	2,000.00	2,000.00	2,000.00
	GRAND TOTAL	37,675.00	37,675.00	36,850.00	36,850.00

*For month of July use fiscal year to date column only.

Exhibit 3-9

NAVCOMPT FORM 2166 (REV 8-66) (7000)
S/N 0104-706-0361

NAVCOMPT 7000-8

OPERATING BUDGET/EXPENSE REPORT

FROM	TO	BUDGET	REPORT	FOR PERIOD ENDING
U. S. Naval Activity Washington, D. C. UIC 66212	Naval Material Command Support Activity (Code 1228) Washington, D. C. 20360	☐ DETAIL ☐ UPDATED PLAN	☐ DETAIL ☒ SUMMARY	31 July 1972
BUDGET FOR	**BUDGET GRANTOR**	**APPROPRIATION DATA**	**COST CENTER**	**REPORTING FISCAL OFFICER (Signature, rank and date of submission)**
U. S. Naval Activity Washington, D. C. UIC 66212	Chief of Naval Operations	1731894.2320	Responsibility Center	

BUD MGT PGM	FUNC/ SUB-FUNC CAT	COST ACCOUNT	DESCRIPTION	WORK UNITS	MAN-HOURS MILITARY	MAN-HOURS CIVILIAN	CUMULATIVE EXPENSES MILITARY SERVICES	CIVILIAN LABOR	MATERIAL AND SUPPLIES	COMMERCIAL CONTRACTS	OTHER	TOTAL EXPENSES
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
F3	D1	1A10	Command and staff		2,000	8,500	10,000	26,071	1,925			37,996
F3	D1	1A00			2,000	8,500	10,000	26,071	1,925			37,996
F3	D1	1RH0	Leave, annual and sick			350		1,000				1,000
F3	D1	1RP0	Leave acceleration					-(3,871)				-(3,871)
F3	D1	1R00				350		-(2,871)				-(2,871)
F3	DZ	1A10	Command and staff						250			250
F3	DZ	1A00							250			250
F3	DZ	1H40	Keypunch			25		100				100
F3	DZ	1H50	Clerical			50		200				200
F3	DZ	1H00				75		300				300
F3	D1	0000			2,000	8,850	10,000	23,200	1,925			35,125
		9Z93	UFO									9,400
		9ZY0	PYRA									250
F3	DZ	0000				75		300				300
		9Z93	UFO									75
		9ZY0	PYRA									50
F3		0000	Subtotal F3 Direct		2,000	8,850	10,000	23,200	1,925			35,125
		9Z93	UFO									9,400
		9ZY0	PYRA									250
F3		0000	Subtotal F3 Reimbursable			75		300	250			550
		9Z93	UFO									75
		9ZY0	PYRA									50
F3		0000	Total F3		2,000	8,925	10,000	23,500	2,175			35,675
		9Z93	UFO									9,475
		9ZY0	PYRA									300
F4	M1	7110	Training			300		500	1,500			2,000
	M1	7100				300		500	1,500			2,000
F4	M1	0000	Subtotal M1			300		500	1,500			2,000

Exhibit 3-10

NAVCOMPT FORM 2169 (REV 8-69) (7600)
S/N 0104-704-0071

NAVCOMPT 7600-8

PERFORMANCE STATEMENT

FROM U. S. Naval Activity Washington, D. C. UIC 66212	TO Naval Material Command Support Activity (Code 1228) Washington, D. C. 20360	APPROPRIATION DATA 1731894.2320	FOR PERIOD ENDING 31 July 1972 REPORTING FISCAL OFFICER (Signature and rank)
BUDGET FOR U. S. Naval Activity Washington, D. C. UIC 66212	BUDGET GRANTOR Chief of Naval Operations	COST CENTER Responsibility Center	DATE OF SUBMISSION 15 Aug 1972

BUDGET CLASSIFICATION				EXPENSES			WORK UNITS				
SUB HOT FOM	FUNC/ SUBFUNC CAT	COST ACCOUNT	DESCRIPTION	ACTUAL	ANNUAL BUDGET	NORM ___% % TO BUDGET	ACTUAL	ANNUAL BUDGET	NORM ___% % TO BUDGET	ACTUAL UNIT COST	STANDARD UNIT COST
(0)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
F3	D1	1A10	Command and Staff	$37,996	$455,952	8	60	720	8	$633.26	$633.26
F3	D1	1A00		37,996	455,952	8	60	720	8	---	---
F3	D1	1RH0	Leave, Annual and Sick	1,000	---	---	---	---	---	---	---
F3	D1	1RP0	Leave Acceleration	-(3,871)	---	---	---	---	---	---	---
F3	D1	1R00		-(2,871)	---	---	---	---	---	---	---
F3	DZ	1A10	Command and Staff	250	3,000	8	1	12	8	250.00	250.00
F3	DZ	1A00		250	3,000	8	1	12	8	---	---
F3	DZ	1H40	Keypunch	100	1,200	8	1	12	8	100.00	100.00
F3	DZ	1H50	Clerical	200	2,400	8	2	24	8	100.00	100.00
F3	0Z	1H00		300	3,600	8	3	36	8	---	---
F3	D1	0000	Subtotal D1	35,125	---	---	---	---	---	---	---
F3	DZ	0000	Subtotal DZ	550	---	---	---	---	---	---	---
F3		0000	Subtotal D	35,675	---	---	---	---	---	---	---
F4	M1	7110	Training	2,000	24,000	8	20	240	8	100.00	100.00
F1	M1	7100		2,000	24,000	8	---	---	---	---	---
F4	M1	0000	Subtotal M1	2,000	---	---	---	---	---	---	---
F4		0000	Total M	2,000	---	---	---	---	---	---	---
		0000	Responsibility Center Total	$ 37,675	---	---	---	---	---	---	---

Exhibit 3-11

NAVCOMPT FORM 2162 (9-68) (7000)
S/N 0104-700-2001

MILITARY SERVICE REPORT

NAVCOMPT 7000-17

FROM	TO	IDENTIFICATION	FOR MONTH OF
U. S. NAVAL ACTIVITY WASHINGTON, D. C. 66212	U. S. NAVAL ACTIVITY WASHINGTON, D. C. 66212	66212	July 1972
		APPROPRIATION DATA 1731804.2320	REPORTING FISCAL OFFICER (Signature and rank)
			DATE OF SUBMISSION July 1972

BRANCH OF SERVICE	OFFICERS			ENLISTED			TOTALS			REMARKS
	CURRENT MONTH			CURRENT MONTH			CURRENT MONTH			
	NUMBER ON BOARD	MILITARY PERSONNEL COST	CUMULATIVE COST TO DATE	NUMBER ON BOARD	MILITARY PERSONNEL COST	CUMULATIVE COST TO DATE	NUMBER ON BOARD	MILITARY PERSONNEL COST	CUMULATIVE COST TO DATE	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
NAVY	5	2,500	2,500	25	7,500	7,500	30	10,000	10,000	none
MARINE CORPS										
*1/ ARMY										
*1/ AIR FORCE										
TOTALS	5	2,500	2,500	25	7,500	7,500	30	10,000	10,000	none
* FOOTNOTE: [illegible]	none			none						

Exhibit 3-12

Form 2169) utilized by O&M,N funded activities operating under NAVSO P-3006-1. The reporting system supplements the RMS system by providing up-to-date information or variances between planned budget and actual budget for use by both the major claimant and the field activity. There are two parts to the UMR reporting system; a fund status reporting system which provides a 'check book' balance for obligation control, and a performance reporting system which provides functional expense information by cost account. A total of seven reports are generated under the UMR system; three under the fund control status reporting system and four under the performance reporting system. A brief description of the seven report types follows.

a. Commanding Officer Summary (Exhibit 3-13)

A funds control status report which provides a one page synopsis of the activity's financial status at a given time.

b. Responsibility Center Funds Control Report (Exhibit 3-14)

This report displays the same data as the Commanding Officer Summary, but a more detailed level. Detail by department, division, branch and section is provided along with a summary total. The report is designed for use by the activity comptroller.

c. Department/Division Detail Report (Exhibit 3-15)

A funds control report which displays the same data contained in the reports mentioned already, but at the

detail document level. It reflects all transactions bearing on funds control and provides information required to research individual transactions, identify erroneous or unrecorded charges and reconcile records. It is designed for use by department managers. These reports are prepared weekly and monthly.

d. UMR - Format A (Exhibit 3-16)

A performance report summarized for each department/division/cost center at the cost account and summary cost account level. Additional summaries are made at the BCC, FC/SFC, Department/Division, and the activity level. The report shows, by total and reimbursable funds, work unit data, expense data, and personnel staffing data. Additionally, undelivered orders, consignments and prior year expense information are shown as separate data elements. The report is designed for use by large production-oriented activities.

e. UMR - Format B (Exhibit 3-17)

A performance report, similar to Format A except on a more summarized basis, which is prepared for each cost center/department/division at the cost account and summary cost account level. The report is also summarized at the BCC and FC/SFC level. It provides management information with regard to work units, military and civilian labor and gross adjusted obligations. It is an alternative to UMR - Format A designed for use at smaller activities in that it contains less non-financial data.

f. UMR - Format C (Exhibit 3-18)

A performance report which provides management information regarding cumulative fiscal year-to-date expenses, undelivered orders and gross adjusted obligations by cost account at the expense element level. It is produced monthly for the cost center and responsibility center. It provides details as to cumulative year-to-date man-hours, work units planned and accomplished, work unit cost, and consignments at the cost account level. It also provides actual and planned expenses, prior year resources applied, undelivered orders, and fiscal year-to-date gross adjusted obligations at the CAC and E/E level. It includes an option for a recapitulation summary at the BCC, FC/SFC, and E/E level. It combines the information available in NAVCOMPT Forms 2168, 2169, and 2171.

g. UMR - Format D (Exhibit 3-19)

A performance report, in two parts, which basically combines the NAVCOMPT Forms 2168 and 2169. The 2168 provides management with details as to work units completed, man-hours and accrued expenses, cumulative to date, by responsibility center for each BCC, FC/SFC, and CAC. A similar report is provided for each cost center. The 2169 is designed to provide management with the actual fiscal year-to-date total for accrued expenses and work units which are compared by cost center and responsibility center with the approved annual budget for each BCC, FC/SFC and CAC.

FUND CONTROL REPORT, COMMANDING OFFICER SUMMARY
(rounded to nearest dollar)

OB/AUTH. HOLDER: NSC CHARLESTON 00612 PAGE

APPN: 1771804.2372 AUTH. NO.: XXXX PERIOD ENDING: 30 APRIL 1977

	(1) NOA			(2) REIMBURSABLES			(3)
	LABOR	MAT'L/OTHER	SUBTOTAL	LABOR	MAT'L/OTHER	SUBTOTAL	TOTAL
Total Authorization -							
Beginning of Period	800.	600.	1400.	400.	300.	700.	2100.
Changes for Period							
Authorizations -							
To Date	800.	600.	1400.	400.	300.	700.	2100.
Gross Obligations to Date	500.	. 250.	750.	300.	250.	550.	1300.
Unobligated Balance	300.	350.	650.	100.	50.	150.	800.
Unfilled Reqns/Consignments		125.	125.		•25.	25.	150.
Net Available	300.	225.	525.	100.	25.	125.	650.
Annual Obligation Plan	800.	600.	1400.	400.	300.	700.	2100.
Obligation as a Percent of Plan	62%	41%	53%	75%	83%	78%	61%
Undistributed Disbursements (EOP)		11.					

TOTAL REIMBURSEMENTS EARNED	500
REIMBURSEMENTS BILLED	400
REIMBURSEMENTS COLLECTED	50
REIMBURSEMENTS UNFILLED	100

• Represents a Request for Contractual Procurement, NAVCOMPT FORM - 2038

Exhibit 3-13

FUND CONTROL REPORT
RESPONSIBILITY CENTER
TOTAL

OB/AUTH. HOLDER: NSC CHARLESTON 00612 (rounded to nearest dollar)

APPN: 1771804.2372 AUTH. NO.: XXXXX PERIOD ENDING: 30 APRIL 1977

	(1) BEGINNING OF PERIOD	(2) AUTHORIZATIONS CHANGES FOR PERIOD	(3) TOTAL TO DATE	(4) GROSS OBL CURRENT PERIOD	(5) GROSS OBL FY TO DATE	(6) UNOB BAL	(7) ANNUAL OBL PLAN	(8) OBL % TO PLAN	(9) UNFILLED REQS	(10) UNRES BAL
TOTAL LABOR - DIRECT	800		800	140	500	300	800	62%		300
TOTAL MAT'L/OTHER - DIRECT	600		600	50	250	350	600	41%	125	225
TOTAL DIRECT	1400		1400	190	750	650	1400	53%	125	525
TOTAL LABOR - REIMB	400		400		300	100	400	75%		100
TOTAL MAT'L/OTHER - REIMB	300		300		250	50	300	83%	25	25
TOTAL REIMB	700		700		550	150	700	78%	25	125
GRAND TOTAL - LABOR	1200		1200	140	800	400	1200	66%		400
GRAND TOTAL - MAT'L/OTHER	900		900	50	500	400	900	55%	150	250
GRAND TOTAL	2100		2100	190	1300	800	2100	61%	150	650

UNDISTRIBUTED DISBURSEMENTS $11

Exhibit 3-14(page 1 of 2)

FUND CONTROL REPORT
RESPONSIBILITY CENTER
DIRECT/REIMBURSABLE

PAGE

OB/AUTH. HOLDER: NSC CHARLESTON 00612 (rounded to nearest dollar)

APPN: 1771804.2372 AUTH. NO: XXXXX PERIOD ENDING: 30 APRIL 1977

	(1) BEGINNING OF PERIOD	(2) AUTHORIZATIONS CHANGES FOR PERIOD	(3) TOTAL TO DATE	(4) GROSS OBL CURRENT PERIOD	(5) GROSS OBL FY TO DATE	(6) UNOB BAL	(7) ANNUAL OBL PLAN	(8) OBL % TO PLAN	(9) UNFILLED REQS	(10) UNRES BAL
LMCXXX1 OPERATIONS										
LMCXXXX MGMT ENGR DIV										
LABOR - DIRECT	200		200	35	35	165	200	17%		165
MAT'L/OTHER - DIRECT	300		300	25	125	175	300	41%	75	100
TOTAL - DIRECT	500		500	60	160	340	500	32%	75	265
LABOR - REIMB	200		200		150	50	200	75%		50
MAT'L/OTHER - REIMB	150		150		125	25	150	83%	12	13
TOTAL - REIMB	350		350		275	75	350	78%	12	63
TOTAL LABOR	400		400	35	185	215	400	46%		215
TOTAL MAT'L/OTHER	450		450	25	250	200	450	55%	87	113
TOTAL	850		850	60	435	415	850	51%	87	328
LMCXXA ADMIN DIV										
LABOR - DIRECT	600		600	105	465	135	600	77%		135
MAT'L/OTHER - DIRECT	300		300	25	125	175	300	41%	50	125
TOTAL - DIRECT	900		900	130	590	310	900	65%	50	260
LABOR - REIMB	200		200		150	50	200	75%		50
MAT'L/OTHER - REIMB	150		150		125	25	150	83%	13	12
	350		350		275	75	350	78%	13	62
TOTAL LABOR	800		800	105	615	185	800	76%		185
TOTAL MAT'L/OTHER	450		450	25	250	200	450	55%		137
TOTAL	1250		1250	130	865	385	1250	69%	63	322

Exhibit 3-14(page 2 of 2)

FUND CONTROL REPORT
DEPARTMENT/DIVISION DETAIL DIRECT REIMBURSABLE

OB/AUTH HOLDER: NSC CHARLESTON 00612

APPN: 1771804.2372 AUTH. NO: XXXXX LMC: XXX PERIOD ENDING: 30 APRIL 1977 PAGE

	(1) DOC NO	(2) JOB NO	(3) QUAN HRS	(4) UNFILLED REQS	(5) UNFILLED	(6) ACCT PAYABLE	(7) EXPEND	(8) TOTAL OBLIG	(9) % OB EOP	(10)* AMOUNT AUTH	(11)* UNOBL BAL	(12)* UNRES BAL
BALANCE (BPO)												
LABOR										200.00	200.00	200.00
MAT'L/OTHER				50.00	50.00	25.00	25.00	100.00	33	300.00	200.00	150.00
TOTAL				50.00	25.00	25.00	100.00 20	500.00		400.00	350.00	
CURRENT TRANSACTIONS												
MAT'L/OTHER	N750MN75RQI2345	750MN543210	50.00	25.00								
	N750MN75WR50001	750MNI24560			25.00							
SUBTOTAL MATERIAL/OTHER				25.00	25.00							
LABOR CHARGES FOR THE PERIOD												
REGULAR	234567891054321	750MN3ACLCR	2		20.00							
OVERTIME	234567891054321	750MN3ACLCR	1		15.00							
SUBTOTAL LABOR					35.00							
BALANCE (EOP)												
BALANCE (EOP)					35.00							
MAT'L/OTHER				75.00	75.00	25.00	25.00	125.00	41	300.00	175.00	100.00
TOTAL				75.00	110.00	25.00	25.00	160.00	32	500.00	340.00	265.00

* ANNUAL PLAN: LABOR 200.00
  MAT'L/OTHER 300.00

* THE ANNUAL PLAN IS AN OPTIONAL INPUT. DISPLAY AND COMPUTATIONS IN COLUMNS (9), (10), (11), and (12) WILL APPEAR FOR THE DETAIL LEVEL TO WHICH THE ACTIVITY INPUTS ITS ANNUAL PLAN.

NOTE: In those instances where this report will exceed available print capability the Unobligated Balance and Unreserved Balance may be moved to the vertical axis and printed showing only the balance as of the end of the report period.

Exhibit 3-15

UNIFORM MANAGEMENT REPORT - A

00612 NSC CHARLESTON, S.C. DEPT/DIV: SUPPLY DEPT -3 OB: 00612 PERIOD ENDING: 31 MARCH 1977 PAGE

A5 SUPPLY OPERATIONS APPN: 1771804.2372 2122 BULK ISSUE BCC-SA

	DAILY AVE. W/U	WORK UNITS	BACKLOG	MAN-HOURS PROD RATE	M/H EXPENDED	X FIXED HOURS	PE	CIVILIAN REGULAR	CIVILIAN OVER TIME	MILITARY	CONTRACT	TOTAL	EMPLOYEE VARIANCE
OCTOBER	776	17,075		2.67	6,388			35.8	.5			36.3	
NOVEMBER	771	16,953	1,542	2.63	6,452			35.2	1.4			36.6	
DECEMBER	806	16,128	1,239	2.46	6,546			38.9	2.0			40.9	
1ST QUARTER	783	50,156	1,239	2.59	19,386			36.5	1.2			37.8	
JANUARY	796	16,708	1,847	2.63	6,350			36.9	.9			37.8	
FEBRUARY	790	15,809	961	2.59	6,094			36.9	1.2			38.1	
MARCH	784	16,458	324	3.07	5,368			31.8	.1			31.9	
2ND QUARTER	789	48,975	324	2.75	17,812			35.1	.7			35.9	
1ST HALF	786	99,131	324	2.66	37,198			35.8	1.0			36.9	
YTD	786	99,131	324	2.66	37,198			35.8	1.0			36.9	
ANNUAL PLAN	820	100,000	175	2.50	40,000			40.0	1.0			41.0	

	CIVILIAN REGULAR	CIVILIAN OVERTIME	MILITARY	COMMERCIAL CONT/OTHER	MATERIAL	TOTAL	UNFILLED ORDERS	MAN-MONTHS UNIT COST	P/R LEAVE	STAFFING	TOTAL STAFF
OCTOBER	37,571.83	691.23			170.00-	38,093.06		2.23	6.8	42.6	43.1
NOVEMBER	37,253.10	1,984.66				39,237.76		2.31	6.0	41.2	42.6
DECEMBER	36,990.08	2,566.80			310.44	39,867.32	215.47	2.47	5.1	44.0	46.0
1ST QUARTER	111,815.01	5,242.69			140.44	117,198.14	215.47	2.33	5.9	42.5	43.8
JANUARY	41,216.35	1,247.44			192.40	42,656.19	139.26	2.55	4.4	41.3	42.2
FEBRUARY	39,127.53	1,751.89				40,879.42		2.58	5.5	42.4	43.6
MARCH	35,694.16	218.87				35,913.03		2.18	7.6	39.4	39.5
2ND QUARTER	116,038.04	3,218.20			192.40	119,448.64		2.43	5.8	41.0	41.7
1ST HALF	227,853.05	8.460.89			332.84	236,646.78		2.38	5.9	41.8	42.8
YTD	227,853.05	8,460.89			332.84	236,646.78		2.38	5.9	41.8	42.8
ANNUAL PLAN	250,000.00	8,500.00				229,443.73					

	GROSS OBLIGATIONS	UNFILLED REQNS	FIRST P/Y EXPENSE	SECOND P/Y EXPENSE
Month	35,805.66	157.24	79.24	28.13
YTD	236,413.68	329.67	167.18	65.92

Exhibit 3-16

UNIFORM MANAGEMENT REPORT - B

60087 NAS BRUNSWICK, ME   DEPT/DIV: STORAGE DIV - 31   OB: 60087   PERIOD ENDING: 31 MARCH 1977   PAGE

A5 SUPPLY OPERATIONS   APPN: 1771804.2372   2141-CARE OF MATL. IN STRG.   BCC-SA

REPORT MONTH REPORT	WORK UNITS ACTUAL ACTUAL	PLAN PLAN	%	MAN-HOURS CIVILIAN REGULAR	CIVILIAN OVERTIME	MILITARY	CONTRACT	TOTAL
OCTOBER	100	100	100	2,772	50			2,822
NOVEMBER	97	100	97	2,802	20			2,822
DECEMBER	93	100	93	3,022	31			3,053
1ST QUARTER	290	300	93	8,556	101			8,697
JANUARY	92	100	92	2,834	55			2,889
FEBRUARY	84	100	84	2,821	62			2,883
MARCH	81	100	81	2,982	25			2,917
2ND QUARTER	257	300	85	8,547	142			8,689
1ST HALF	547	600	91	17,143	243			17,386
YTD	547	600	91	17,143	243			17,386
ANNUAL PLAN	600	600		18,100	250			18,250

EXPENSES

	CIVILIAN REGULAR	CIVILIAN OVERTIME	MILITARY	COMMERCIAL CONTRACT	MATERIAL	OTHER	TOTAL	UNFILLED ORDERS	UNIT COST
OCTOBER	17,221.29	315.20					17,536.49		175.36
NOVEMBER	17,237.75	120.76					17,358.51		178.95
DECEMBER	18,306.82	198.69				1.00	18,506.51		198.99
1ST QUARTER	52,765.86	634.65				1.00	53,401.51		184.14
JANUARY	19,452.42	350.34				16.00	19,818.76		215.42
FEBRUARY	18,837.78	469.29				32.77	19,339.84		230.23
MARCH	19,391.79	174.14					19,565.93		241.55
2ND QUARTER	57,681.99	993.77				48.77	58,724.53		228.50
1ST HALF	110,447.85	1,628.42				49.77	112,126.04		204.98
YTD	110,447.85	1,626.42				49.77	112,126.04		204.98
ANNUAL PLAN	125,000.00	2,000.00				100.00	127,100.00		190.00
DIR EXP - YTD	110,000.00	1,608.02				49.77	111,657.79		

	GROSS OBLIGATIONS	UNFILLED REQNS	FIRST P/Y EXPENSE	SECOND P/Y EXPENSE
Month	19,553.54		12.39	
YTD	112,088.98		24.67	

Exhibit 3-17

UNIFORM MANAGEMENT REPORT - C

FROM: NTC ORLANDO FL
UIC 65928

TO: NTC ORLANDO FL
UIC 65928

OB HOLDER: NTC ORLANDO FL

OB GRANTOR: CNTT NAS (MEMPHIS-77)
MILLINGTON TN
UIC 63111

(X) COST CENTER
( ) RESPONSIBILITY CENTER
(X) DIRECT
( ) REIMBURSABLE

APPROPRIATION:
1771804.6284

COST CENTER:
CIVILIAN PERSONNEL OFFICE

PERIOD ENDING:
31 MAR 1977

SUBMISSION DATE:
25 APR 1977

REPORTING OFFICER:

BCC (1)	FC (2)	C/A (3)	DESCRIPTION (4)	CONSIGNMENTS (5)	E/E (6)	YTD ACT MAN HRS (7)	PLANNED ANNUAL W/U (8)	YTD ACT WK UNITS (9)	WK UNIT COST (10)	PLANNED ANN EXP (11)	YTD EXP (12)	PRIOR YR EXP (13)	UNDELIVERED ORDERS (14)	GROSS ADJ OBLIGS (15)
F3	D1	1010	ADMINISTRATION		E					5235	1979			1979
F3	D1	1010			Q					1491	2671			2371
F3	D1	1010			T					414	561			561
F3	D1	1010			U	5649				51931	51305			51305
F3	D1	1010			Y					200	139	13		126
F3	D1	1010	COST ACCOUNT TOTAL	1849		5649	2181	2211	25.624	59271	56653	13		56642
F3	D1	1020	EMPLOYMENT		E					1993				
F3	D1	1020			L						1993	1993		
F3	D1	1020			Q					1201	3494	3148		346
F3	D1	1020			T					320	541			541
F3	D1	1020			U	18448				118430	140697			140697
F3	D1	1020			Y					1649	3079	1	2	3060
F3	D1	1020	COST ACCOUNT TOTAL			18448	6000	6112	24.509	123593	149804	5142	2	144664
F3	D1		F/SFC by E/E TOTAL		E					7228	1979			1979
F3	D1				L						1993	1993		
F3	D1				Q					2692	6165	3148		3017
F3	D1				T					734	1102			1102
F3	D1				U	24097				170361	192002			192002
F3	D1				Y					1849	3218	14	2	3206
F3	D1		F/SFC TOTAL	1849		24097				182864	206459	5155	2	201306
F3			BCC TOTAL	1849		24097				182864	206459	5155	2	201306
EXPENSE ELEMENT TOTAL					E					7228	1979			1979
					L						1993			
					Q					2692	6165	3148		3017
					T					734	1102			1102
					U	24097				170361	192002			192002
					Y					1849	3218	14	2	3206
COST CENTER TOTAL				1849		24097				182864	206459	5155	2	201306

Exhibit 3-18(page 1 of 4)

UNIFORM MANAGEMENT REPORT - C

PAGE

FROM:	TO:			APPROPRIATION	FOR PERIOD ENDING:	SUBMISSION DATE:
NAVAL TRAINING CENTER ORLANDO, FL 32813 UIC 65918	COMMANDER, NTC ORLANDO, FL 32813 UIC 65918	( ) COST CENTER (X) RESPONSIBILITY CENTER		1771804.6284	3/31/77	4/25/77
OB HOLDER AND UIC NAVAL TRAINING CENTER ORLANDO, FL 32813 UIC 65928	OB GRANTOR CNTT, NAS (MEMPHIS-77) MILLINGTON, TN 38054 UIC 63111	(X) DIRECT ( ) REIMBUR	COST CENTER		REPORTING OFFICER	

BCC (1)	FC (2)	C/A (3)	DESCRIPTION (4)	TOTAL (5)	E/E (6)	YTD ACT MAN HRS (7)	PLANNED ANNUAL W/U (8)	YTD ACT WK UNITS (9)	WK UNIT COST (10)	PLANNED ANN EXP (11)	YTD EXP (12)	PRIOR YR EXP (13)	UFO (14)	YTD OBLIGATION (15)
FA	H1	71PO	COLD STOR PLANTS		Q						56		8000	8056
FA	H1	71PO			T					300	1529			1529
FA	H1	71PO			U	132				1000	892			892
FA	H1	71PO	COST ACCT TOTAL			132	24	17	145.705	1300	2477		8000	10477
FA	H1	7120	ALLOCATED COST CR		Z						9245-			9245-
FA	H1	7120	COST ACCT TOTAL								9245-			9245-
FA	H1	7110	TRAINING		Q					3800	11957	9414	10970	13513
FA	H1	7110			T					8940	3328			3328
FA	H1	7110			U	998				29350	6768			6768
FA	H1	7110	COST ACCT TOTAL	437		998	373	373	59.123	42090	22053	9414	10970	23609

Exhibit 3-18(page 2 of 4)

UNIFORM MANAGEMENT REPORT - C (RECAPITULATION)

FROM: NTC ORLANDO FL UIC 65928 | TO: NTC ORLANDO FL UIC 65928 | ( ) COST CENTER | APPROPRIATION 1771804.6284 | PERIOD ENDING: 31 MAR 1977

OB HOLDER: NTR ORLANDO FL UIC 65930 | OB GRANTOR: CNTT NAS (MEMPHIS-77) MILLINGTON TN UIC 63111 | (X) RESPONSIBILITY CENTER | COST CENTER: | SUBMISSION DATE: 25 APR 1977

(X) DIRECT

( ) REIMBURSABLE | REPORTING OFFICER:

BCC (1)	FC (2)	SUB FC (3)	E/E (4)	DESCRIPTION (5)	CONSIGNMENTS (6)	YTD ACT MAN HRS (7)	PLANNED ANN W/U (8)	YTD ACT WK UNITS (9)	WK UNIT COST (10)	PLANNED ANN EXP (11)	YTD EXP (12)	PRIOR YR EXPENSE (13)	UNDELIVERED ORDERS (14)	GROSS ADJ OBLIGS (15)
F3	L	A	E							406	582			582
			N							284473	314700	2805	2256	314231
			Q							11119	12673			12673
			T							3331	2831			2831
			U			22282				91699	124190			124190
			W								1482			1482
			Y							4410	3804			3804
			Z							129392	157564-			157564-
F3	L	A			2104	22282	93587	42495	7125	266046	302778	2805	2256	302229
F3	L	D	N							29586	31178	5		31173
			Q							12300	17559	970	1723	18342
			T							6625	4540			4540
			U			1271				10514	8446			8446
			V								258			258
			Z							144452	173593			173593
F3	L	D				1271	1422246			203477	235604	975	1723	236352
F3	L		E							406	582			582
F3	L		N							314059	345958	2810	2256	345404
F3	L		Q							23419	29932	970	1723	31015
F3	L		T							9956	7371			7371
F3	L		U							102213	132636			132636
F3	L		V								258			258
F3	L		W								1482			1482
F3	L		Y							4410	3804			3894
F3	L		Z							15060	16029			16029
F3	L				2104	23553				469523	538002	3780	3979	538581
F3			E							406	582			582
F3			N							314059	345958	2810	2256	345404
F3			Q							23419	29932	970	1723	31015
F3			T							9956	7371			7371
F3			U			23553				102213	132636			132636
			V								258			258

Exhibit 3-18(page 3 of 4)

F3	W				1482			1482
F3	Y			4410	3804			3804
F3	Z			15060	16029			16029
F3		2104	23553	469523	538052	3780	3979	538581
	S			406	582			582
	N			314059	343958	2810	2256	345404
	Q			23419	29932	970	1723	31015
	T			9956	7371			7371
	U		23553	102213	132636			132636
	V				258			258
	W				-1482			1482
	Y			4410	3804			3804
	Z			15060	16029			16029
		2104	23553	469523	538052	3780	3979	538581

Exhibit 3-18(page 4 of 4)

UNIFORM MANAGEMENT REPORT - D

NAVCOMPT FORM 2169 PERFORMANCE STATEMENT

FROM: SPCC MECHANICSBURG PA UIC 00104 TO: COMNAVSUPSYSCOM (X) COST CENTER ( ) RESPONSIBILITY CENTER APPROPRIATION: 1771804.6330 PERIOD ENDING: 31 MAR 1977

OB HOLDER: SPCC MECHANICSBURG PA OB GRANTOR: COMNAVSUPSYSCOM WASHINGTON DC UIC 00023 COST CENTER: SUPPLY DEPT

DETAIL SC (0)	FC (1)	CA (2)	TITLE (3)	EXPENSE ACTUAL YRLY (4)	BUDGET (5)	NORM % (6)	WORK UNITS ACTL YRLY (7)	BUDGET (8)	NORM % (9)	ACTUAL (10)	BUDGETED (11)	STD (12)	BACK LOG W/U (13)
F3	A5	21AJ	Receiving Opers.	1,532,891	1,781,999	86	880,296	1,058,430	83	1.74	1.68	1.69	1.357
F3	A5	21AK	Incoming Storage	404,090	487,853	83	482,906	509,298	95	.84	.96	.96	
F3	A5	21BA	Light Packing	917,251	968,362	95	326,888	477,621	68	2.81	2.03	2.03	1.568
F3	A5	21BB	Heavy Packing	749,068	677,549	111	94,125	98,853	95	7.96	6.85	10.31	.656
F3	A5	21ZO	Allocd Reimb Cost Cr.	502,163-									
			Net Dir Prod Expns.	3,101,137	3,915,763	79							
F3	AZ	21AJ	Receiving Opers.	17,893									
F3	AZ	21BA	Light Packing	4,702									
F3	AZ	21BB	Heavy Packing	50,831									
F3	AZ	21	Direct Reimb	73,426									
F3	AZ	2121	Allocd Reimb Cost Dr.	502,163									
F3	AZ	21	Total Reimb	575,589									
F3	A5	21AJ	Receiving Opers	1,550,784	1,781,999	87	880,296	1,058,430	83	1.76	1.68	1.69	1.357
F3	A5	21AK	Incoming Storage	404,090	487,853	83	482,906	509,298	95	.84	.96	.96	
F3	A5	21BA	Light Packing	921,953	968,362	95	326,888	477,621	68	2.82	2.03	2.03	1.568
F3	A5	21BB	Heavy Packing	799,899	677,549	118	94,125	98,953	95	8.50	6.85	10.31	.656
F3	A5	21	Storage Warehouse Op	3,676,726	3,915,763	94							
COST CENTER			TOTAL	3,676,726	3,915,763	94							

Exhibit 3-19(page 1 of 3)

F3	A5	Supply Operations	61,911	251,215	88,435	10,899	65,866	416,415
F3	A5	Undelivered Orders						7,045
F3	A5	Consignments						1,304-
F3	A5	Reimb Undelivered Orders						5,747-
F3	A5	Reimb Prior Year Expns.						25
F3	A	Mission Operations	61,911	251,215	88,435	10,899	65,866	416,415
F3	A	Undelivered Orders						1,298
F3	A	Consignments						1,304-
F3	A	Prior Year Expns						25
F3		Sub Total F3 Direct		235,139	78,899	10,899	279,510-	45,372
F3		Undelivered Orders						7,045
F3		Consignments						1,304-
F3		Sub Total F3 Reimb		16,076	9,591		345,376	371,043
F3		Undelivered Orders						5,747-
F3		Prior Year Expns						25
F3		TOTAL F3		251,215	88,435	10,899	65,866	416,415
		Sub Total Direct		235,139	78,844	10,899	279,510-	45,372
		Undelivered Orders						7,045
		Consignment						1,304-
		Sub Total Reimb		16,076	9,591		345,376	371,043
		Undelivered Orders						5,747-
		Prior Year Expns						25
		TOTAL		251,215	88,435	10,699	65,866	416,415

Exhibit 3-19(page 2 of 3)

UNIFORM MANAGEMENT REPORT - D

OPERATING BUDGET/EXPENSE REPORT

FROM: NSC NORFOLK VA TO: COMNAVSUPSYSCOM ( ) COST CENTER APPROPRIATION: PERIOD ENDING: 31 JAN 1977
UIC 00189 ARLINGTON VA
UIC 00023 (X) RESPONSIBILITY CENTER REPORTING OFFICER:
COST CENTER:

OB HOLDER: NSC NORFOLK VA
UIC 00189 OB GRANTOR: COMNAVSUPSYSCOM
WASHINGTON DC
UIC 00023

SC (0)	DETAIL FC (1)	CA (2)	TITLE (3)	WORK UNIT (4)	MAN-HOURS MILITARY (5)	CIVILIAN (6)	EXPENSES MIL LBR. (7)	CIV. LBR (8)	MATERIAL (9)	COML CONTR. (10)	OTHER (11)	TOTAL (12)
F3	A5	21AJ	Receiving Opers.	65,041		25,035		106,834	3,417	10,899	59,535	190,655
F3	A5	21AK	Incoming Storage	36,709		7,437		23,235			6,212	29,447
F3	A5	21BA	Light Packing	29,491		16,104		58,081	30,911		33	89,447
F3	A5	21BB	Heavy Packing	7,362		10,029		46,989	44,516			91,585
F3	A5	21	Direct Productive Expense			58,605		235,139	78,844	10,899	65,780	390,662
F3	A5	2120	Allocd Reimb Cost Cr								345,200-	345,290-
F3	A5	21	Net Direct Prod Expense					235,139	78,844	10,899	279,510-	45,572
F3	AZ	21AJ	Receiving Opers.			1,213		5,976	11			5,976
F3	AZ	21BA	Light Packing			107		491	53			579
F3	AZ	21BB	Heavy Packing			1,986		9,609	9,492		86	19,187
F3	AZ	21	Direct Reimb.			3,306		16,076	9,591		86	26,953
F3	AZ	2121	Allocd Reimb Cost Dr.								345,290	345,290
F3	AZ	21	Total Reimb.					16,076	9,591		345,376	371,043
F3	A5	21AJ	Receiving Opers.	65,041		26,248		112,810	3,428	10,899	59,535	156,672
F3	A5	21AK	Incoming Storage	36,709		7,437		23,235			6,212	29,447
F3	A5	21BA	Light Packing	29,491		16,211		58,572	30,999		33	89,604
F3	A5	21BB	Heavy Packing	7,362		12,015		56,593	54,006		36	110,692
F3	A5	21	Storage Warehouse Opers.			61,911		251,215	88,435	10,899	65,866	416,415

Exhibit 3-19(page 3 of 3)

4. RMS Reports in Perspective

The RMS and UMR reports addressed comprise the backbone of the budget execution program for O&M,N appropriated funds at shore activities. Reports, initiated at the cost center level, are summarized and forwarded for additional consolidation into reports at the responsibility center, subclaimant, claimant and departmental levels; they are thus the building blocks of the financial control system presently in use. And, as was highlighted in Chapter II, the success or failure of financial reporting can be evaluated, in part, by the extent to which top management is informed of potential and actual deviations from budget plans in sufficient time to allow effective decision-making and the initiation of corrective action.

5. EOB Approval

Upon receipt of the approved budget from CNO (OP-92), the EOB grantor (claimant) must update the overall financial plan to agree with the approved amount. During this process, a determination of the approved amounts for each subordinate level is made. Additionally, the minimum restrictions, consistent with statutory and other regulatory requirements are determined.

The Resource Authorization (NAVCOMPT Form 2168-1), shown in Exhibit 3-20, is normally used to advise EOB holders of the amount approved for that activity. Net quarterly increments of the approved budget are displayed separately

NAVCOMPT FORM 2168-1 (6-68) (FRONT)
S/N-0104-LF-000-0000

RESOURCE AUTHORIZATION

FROM	TO	OB NUMBER / APPROVED BY	
CINCUSNAVEUR	U. S. NAVAL STATION ROTA, SPAIN FPO NEW YORK 09540	63863 APPROVED BY V. F. VanParrett, CAPT USN	[X] NEW AUTHORIZATION [ ] AMENDMENT NO. ______
APPROPRIATION NO: 1701804	SUBHEAD: .6410		DATE: 15 June 1974

QUARTER	TOTAL DIRECT EXPENSES: INCREASE (DECREASE)	TOTAL DIRECT EXPENSES: QUARTERLY AMOUNT	CHANGES IN UNFILLED ORDERS: INCREASE (DECREASE)	CHANGES IN UNFILLED ORDERS: QUARTERLY AMOUNT	TOTAL DIRECT OPERATING BUDGET: INCREASE (DECREASE)	TOTAL DIRECT OPERATING BUDGET: QUARTERLY AMOUNT	MILITARY PERSONNEL EXPENSES: INCREASE (DECREASE)	MILITARY PERSONNEL EXPENSES: QUARTERLY AMOUNT	NEW OBLIGATIONAL AUTHORITY: INCREASE (DECREASE)	NEW OBLIGATIONAL AUTHORITY: QUARTERLY AMOUNT
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)
FIRST	1,805,000.	1,805,000.	- 5,000.	- 5,000.	1,800,000.	1,800,000.	300,000.	300,000.	1,500,000.	1,500,000
SECOND	1,600,000.	1,600,000.	- 0 -	- 0 -	1,600,000.	1,600,000.	300,000.	300,000.	1,300,000.	1,300,000.
THIRD	1,587,500.	1,587,500.	- 0 -	- 0 -	1,587,500.	1,587,500.	300,000.	300,000.	1,287,500.	1,287,500.
FOURTH	1,662,500.	1,662,500.	- 0 -	- 0 -	1,662,500.	1,662,500.	300,000.	300,000.	1,362,500.	1,362,500.
TOTAL	6,655,000.	6,655,000.	- 5,000.	- 5,000.	6,650,000.	6,650,000.	1,200,000.	1,200,000.	5,450,000.	5,450,000.

REMARKS

(1) OF THE ABOVE AMOUNTS, $1,200,000. IS AVAILABLE ONLY FOR MILITARY PERSONNEL COSTED AT STANDARD RATES.

(2) OF THE ABOVE AMOUNTS, $5,450,000. IS EQUAL TO NOA UNDER O&MN AND IS SUBJECT TO R. S. 3679, BUT MAY BE INCREASED BY THE AMOUNT OF REIMBURSABLE ORDERS RECEIVED.

(3) NOT LESS THAN $XXX,XXX.00 OF THE NOA ABOVE IS AVAILABLE FOR MAINTENANCE OF REAL PROPERTY AND FACILITIES.

(4) INCLUDED IN THE AMOUNT FOR NOA IS $170,000 (EXCLUDING MILITARY PERSONNEL) FOR DISPOSAL FACILITIES.

Exhibit 3-20

and cumulative amounts are only shown on the 'total' line. The local Annual Planning Figure (APF) must be developed within the control figures provided on the NAVCOMPT Form 2168-1. Following receipt of the 2168-1, each activity submits a detailed EOB to higher authority showing how funds are programmed for use (a copy is also provided to the AAA). This submission becomes the basis for subsequent reporting and formal reclama efforts.

The Resource Authorization is normally received after the start of the fiscal year, sometime during the first quarter. Therefore, the comptroller at each shore activity, in conjunction with cost center managers, and following guidance provided by the commanding officer, develops a financial plan based on historical data and projections of expected costs before receipt of the official authorization. This financial plan or APF, however, is normally developed following the end of the previous fiscal year. In this way, the most current cost data is utilized in developing the APF which serves as the basis for subsequent reviews and necessary reprogramming.

6. Reviews

As previously mentioned, an initial review is conducted upon receipt of the NAVCOMPT Form 2168-1 to bring the APF into line with the established control figures. Also, continuous analysis is conducted at the activity level to see if obligations and expenditures are in consonance with those planned.

A formalized, concentrated review of performance, called the Mid-Year Review, is conducted by the DON in March through May of each fiscal year. It is a process which is initiated at the field activity and progresses up through the chain of command. Particular attention is directed toward providing resources for previously unfunded requirements either caused by unforseen changes or known to exist but unable to be funded within the control figure provided on the 2168-1. The Mid-Year Review utilizes actual progress experienced over a 6-month period as the baseline for evaluating program status in relation to budget and execution plans. In aggregate form, it provides an opportunity to address major imbalances and specific problem areas at the highest management levels. It also offers a formal vehicle for implementation of resulting financial and/or program decisions. Although the Mid-Year Review is the formal DON requirement, many claimants or EOB holders require similar comprehensive reviews to be conducted on a quarterly basis.

7. Adjustments

During the course of a year, it is inevitable that unforseen events will occur which make it desirable, or in some cases essential, to transfer funds between programs of an appropriation. This is called reprogramming; the shifting of funds from the original purpose for which they were justified to Congress. Reprogramming involves the serious question, therefore, of keeping faith with Congress.

The reasons for reprogramming can be many, including changes in operating conditions, new and urgent requirements, wage rate adjustments, price changes, enactment of new legislation, and the like. In response to changes such as these, responsible offices have the authority to reprogram within thresholds and report to NAVCOMPT. NAVCOMPT reviews, approves, and documents reprogramming transactions if they exceed established thresholds. When the proposed reprogramming exceeds specified limits, it must be approved by OSD and, in some cases, by Congress.

Under the RMS system, EOB holders (Responsibility Center commanding officers) have flexibility to adjust certain items. For example, they are free to adjust between labor and non-labor resources as long as such actions are properly justified, documented, and not in conflict with command priorities.

8. Reclamas

An effective budget execution program requires the timely identification of true hardcore shortfalls concomitant with proper justification. The comptroller of every shore activity must be capable of identifying critical operational and support deficiencies, clearly justifying resource requirements and presenting his or her needs in a most convincing manner. This is important not only from the standpoint of attempting to achieve supplemental funding, but also from the standpoint of 'protecting' currently authorized funds from reprogramming actions initiated by higher authority in response

to emergent conditions. In effect, the ability to reclama effectively is by far the most critical of all budget execution processes.

9. Recoupment

Another important aspect of budget execution involves the constant effort by fund administrators to discover sources for the recovery of previously programmed funds, e.g., terminated or reduced programs, reevaluated support requirements, contract price redeterminations, etc. In fact, at the top management level, OSD requires that the DON anticipate the level of recoveries and to use this estimate to offset new obligational authority (NOA) requested to finance new programs in the budget year. At the field activity level, local procedures should be established to support recoupment actions.

10. Specific Controls

Funds authorized for obligation, as noted, are received on a NAVCOMPT Form 2168-1 (see Exhibit 3-20). The controls provided within the basic format, as well as the footnotes contained in the remarks section of the form, represent specific limitations, restrictions and targets. Many of these were already discussed in the first portion of this chapter. It is a basic tenent of the financial management system that 'fencing' restrictions attending expenses approved in the operating budget be kept to the absolute minimum necessary to adhere to statutory or other regulatory requirements.

Rather than impose an inordinate number of restrictions at the higher management levels, emphasis is placed on giving local activity management the maximum practicable flexibility in the application of approved resources. Examples of specific controls which are routinely imposed on field activities include: a maintenance of real property (MRP) floor, requiring the obligation of at least the minimum amount stated on this facilities maintenance function; a travel ceiling, prohibiting the expenditure of more than the stated amount on Temporary Additional Duty (TAD) travel and; a ceiling on the end strengths for civilian personnel employed by pay grade (ceiling points).

11. <u>Internal Review and Audit</u>

The internal review function is designed to provide commanding officers with an independent in-house capability for review of financial and other resources, related analysis and trouble shooting, and the discharge of assigned audit responsibilities. A strong internal review function is the most effective and reliable means at a commanding officer's disposal to insure that his subordinates are performing properly. The formal audit function within the DON is assigned, in the NAVCOMPT Manual, to the Naval Audit Service. An internal review function will, however, in accordance with SECNAV directives, be implemented at all appropriate Navy activities. The formal audit function is not a subject of this thesis.

The internal review function includes the conducting of special audits, studies, analyses and investigations of financial operations and the use of command resources to detect deficiencies, improprieties and inefficiencies. In addition, this function provides recommendations to correct conditions that adversely impact financial management, mission accomplishment, or the integrity of command. Most of the concepts concerning internal review addressed in Chapter II are echoed in DON and field activity level directives. Therefore, specific details will not be reiterated.

D. SUMMARY

The financial management system for executing the O&M,N Appropriation at Navy shore activities is largely accounting oriented. The vast majority of guidance provided by current directives involves procedural instructions regarding the tracking of obligations and expenditures against the approved budget. Emphasis is placed on remaining within established statutory and regulatory limitations. Specific guidance on an overall management control/budget execution methodology is relatively limited. Normally, all that is provided is an explanation of the need for maximum effectiveness and efficiency in the use of assigned resources while pursuing the accomplishment of the activity's mission.

This chapter has provided a brief overview of the financial management system in use within the DON in regard to the execution of the O&M,N Appropriation at Navy shore activities. The

previous chapter delineated a management control model, the MOR process, which is considered adaptable for use by Navy shore activities in executing their operating budgets. The next chapter will present the questionnaire which was sent to comptrollers at shore activities to gain an appreciation of what procedures and policies are currently being used in the field. The chapter will also detail the results of the survey. The results outlined in Chapter IV will form the basis, in union with the background information contained in Chapters II and III, for the conclusions and recommendations listed in Chapter V.

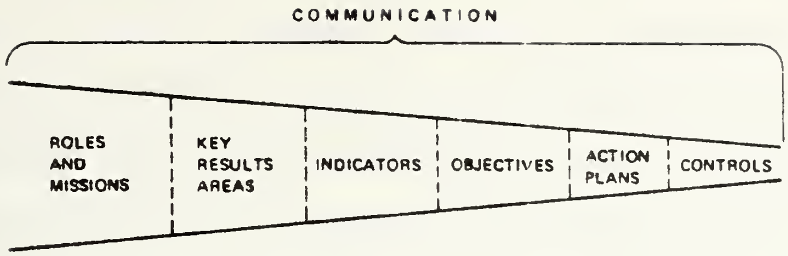
IV. BUDGET EXECUTION SURVEY AND RESULTS

A. INTRODUCTION

This chapter presents the nucleus of the research effort undertaken in studying budget execution at Navy shore commands. The chapter starts with a brief review of the Management by Objectives and Results (MOR) management control model presented in Chapter II. Next, the reasoning behind the selection of the questionnaire format, and the types of questions utilized will be explained. Subsequently, the basis for choosing the sample of commands to whom questionnaires were addressed will be explained. The results of the survey will afterwards be arrayed and explained as necessary. Finally, the chapter will provide an analysis of what are considered, by the author, to be areas of significant results.

B. THE MOR PROCESS IN REVIEW

MOR is a relatively simple, common sense, and logical approach to the management function; it uses familiar and proven principles and techniques of management and is readily adaptable for use within the public sector. The MOR process is clearly depicted by the MOR funnel, a diagram of which is repeated in Exhibit 4-1. In brief, the six steps in the MOR process are: Defining roles and missions (determining the nature and scope of work to be performed); Determining key results areas (determining where to invest time, energy and



THE MOR FUNNEL
Exhibit 4-1 [34: pg 23]

talent); Identifying and specifying indicators of effectiveness (determining measurable factors on which objectives may be set); Selecting and setting objectives (determining results to be achieved); Preparing action plans (determining how to achieve specific objectives); and Establishing controls (ensuring the effective accomplishment of objectives). Communication is the catalyst that ties the entire MOR process together.

Management control and budget execution, as detailed in earlier chapters, are topics which, in the author's opinion, are closely intertwined. MOR is a process for management control which is considered by the author to be generally applicable to the budget execution process. MOR is also seen as a potentially adaptable methodology for control in regard to the execution of the O&M,N Appropriation at Navy shore commands.

C. THE QUESTIONNAIRE FORMAT AND CONTENT

The study of management control, with specific emphasis on the MOR process, coupled with a review of Navy budget execution principles and policies, sparked an interest in the author to determine how the budget execution process actually unfolded at

Navy shore commands. Acknowledgement of the dynamic fiscal environment in which commands now find themselves, an environment greatly impacted by inflationary pressures and rising public concern over fiscal responsibility, provided further impetus to the author's desire to determine actual practices for execution of the Operations and Maintenance, Navy (O&M,N) Appropriation at the field activity level. A questionnaire, a copy of which is included in Appendix A, was thus developed to query Navy shore commands concerning management control/ budget execution policies and practices.

The subject of management control, as indicated in Chapter II, is a pervasive one. As a result, distillation of the myriad of aspects and components of a management control/budget execution process into a concise survey presents a distinct challenge to any researcher. This author directed the survey effort toward determining actual conditions in the following major areas: organization, administration, management control (including productivity measurement, reporting, variance analysis, reviews and auditing), training and general budget execution philosophy. These major areas, as well as a miscellaneous section, were further subdivided into areas of concern such as span of control, resource allocation, incentive programs, interaction with the Authorized Accounting Activity (AAA), and the like. Each of the subsections contained a series of questions which were designed to provide an overview of the budget execution practices currently in use. Although

specific reference was not made to definitive portions thereof, the management control model developed in Chapter II provided a conceptual foundation for the development of the questionnaire.

The majority of questions included in the survey were dichotomous in nature, requiring a simple yes or no response. A few questions necessitated a short narrative response. A simple, easily completed format was chosen due to a desire not to impact more adversely than necessary on the time of the comptrollers who were asked to respond. The survey was considered by the author to be somewhat lengthy, but the breadth of the subject area necessitated such a wide-ranging survey.

The specific questions chosen represent a compilation of areas of concern presented in management literature and Navy directives. A few of the sources utilized were the Pomerantz, et al. (1976) text "Auditing in the Public Sector," the Naval Postgraduate School Practical Comptrollership Course (PCC) text, and the Naval Audit Service Headquarters "Supply and Financial Management Audit Guide." A format similar to one presented by Pomerantz was chosen due to its straightforward nature and ease of understanding. Feedback from a number of survey recipients generally indicated a feeling that the survey results would provide meaningful data for the purpose intended.

D. THE SAMPLE

The sample of commands chosen as targets for the questionnaire was arrived at judgementally by the author. The

procedure basically entailed proceeding down the list of commands on the Standard Navy Distribution List (SNDL) for shore commands and choosing a sample of 140 activities which varied in regard to such aspects as major claimant, function or mission, and relative size. After the survey was mailed, it was determined that 22 of the 140 activities chosen did not fall under the purview of the O&M,N Appropriation, most of them funded by the Navy Industrial Fund (NIF). All 22 of these activities were subordinate commands under the Chief of Naval Material (CNM) major claimant umbrella. As a result, the effective size of the sample was reduced to 118 commands. The questionnaire was sent directly to the comptroller of each command. The responses were designed to be returned anonymously in the hope of encouraging complete honesty in replying.

Of the 118 effective surveys mailed, 49 were completed and returned for a response rate of 41.5%. In the author's opinion, this represents an adequate response for the purpose of drawing general conclusions about budget execution practices and procedures at shore commands. Exhibit 4-2 indicates the breakdown of survey recipients by major claimant. It also provides statistics on the distribution of responses within each claimant category.

E. QUESTIONNAIRE RESULTS

This section will present the results of the questionnaire by subsection within the major areas of organization,

SURVEY BREAKDOWN BY
MAJOR CLAIMANT

MAJOR CLAIMANT	No. Sent	No. Completed & Returned
CINCLANTFLT	20	11
CINCPACFLT	21	12
CNET	20	9
CNM	29*	4
CNP	8	2
CNO	21	3
NAVTELCOM	4	0
BUMED	6	2
NAVSUP	9	5
NAVSECGRU	2	1
Total	140	49

*22 not applicable due to NIF funding.

CINCLANTFLT - Commander in Chief, U.S. Atlantic Fleet

CINCPACFLT - Commander in Chief, U.S. Pacific Fleet

CNET - Chief Naval Education and Training

CNM - Chief of Naval Material

CNP - Chief of Naval Personnel

CNO - Chief of Naval Operations

COMNAVTELCOM - Naval Communications Command

BUMED - Bureau of Medicine and Surgery

NAVSUP - Naval Supply Systems Command

NAVSECGRU - Naval Security Group

Exhibit 4-2

administration, management control, training, miscellaneous and budget execution philosophy. This approach has been chosen in lieu of presenting the results in total for reasons of reading ease and clarity. This section will simply report the results. Explanations will be kept to a minimum, consistent with clarity and accuracy. The final section of the chapter will provide an analysis of what the author deems to be significant results.

1. Organization

This section consisted of four general introductory questions and three other subsections. The first four questions were:

a) Type of Command ______________________________

b) Name of major claimant ______________________

c) Size of O&MN appropriation (direct): _________

d) Do you consider your staff to be adequate for the budget execution function?

The type of command responses of the respondents did not provide any data considered to be meaningful by the author. Although many did list specifics such as "Naval Air Station" or "Training Command," many of the respondents left this item blank or simply inserted "Shore Activity." Therefore, no further reference to this question is deemed to be appropriate. The responses to the second question were already highlighted in Exhibit 4-2. The responses to the third question are shown in Exhibit 4-3.

Of the 49 activities who responded to the fourth question, 37 indicated a positive response, representing 75.5%. Three activities, in responding negatively, indicated that the analytical requirements for their staffs had increased but increases in staff size to offset the new requirements had not been forthcoming.

SIZE OF O&M,N APPROPRIATION
(in millions) (49 responses)

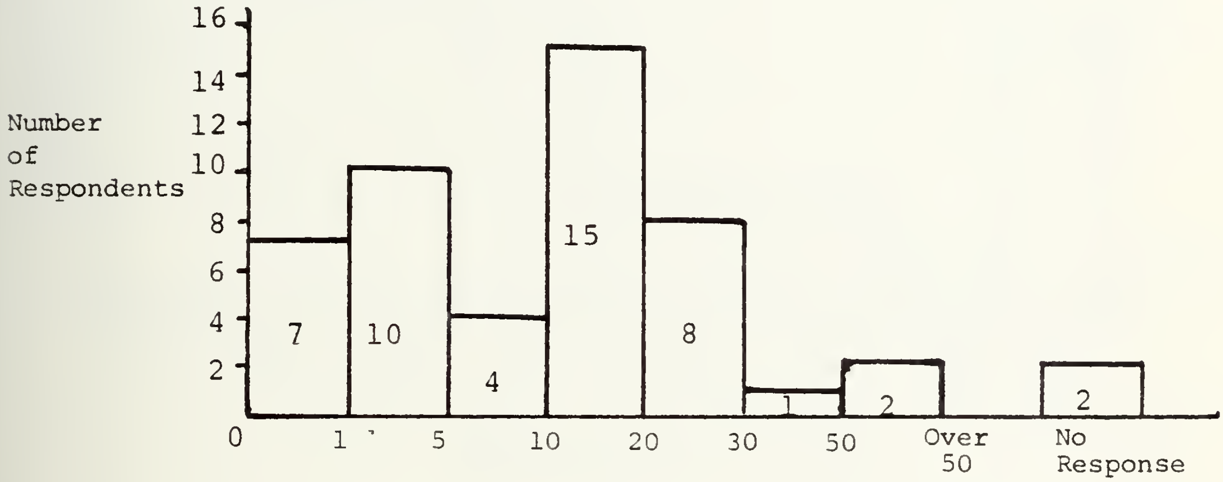


Exhibit 4-3

a. Span of Control

The questions in this section were:

1) How many cost centers are assigned? ___________
2) Do you utilize centralized funds control?
3) Do you utilize decentralized funds control?
4) Is a mix of centralized/decentralized funds control used? (Specify funds controlled centrally)

The distribution of the number of cost centers assigned is shown in Exhibit 4-4. Responses to the questions on funds control are tabulated in Exhibit 4-5. For commands who responded positively to the question on a centralized/

decentralized funds control mix, the following types of costs were listed as falling in the centralized control category:

Type Cost	No. Respondents
Civilian Labor	15
Travel and MRP	6
Leases, Annual Maintenance, Public Works Support	4
Everything except Consummables	1
Non-Labor of Non-Command Interest that Crosses Departmental Lines	1

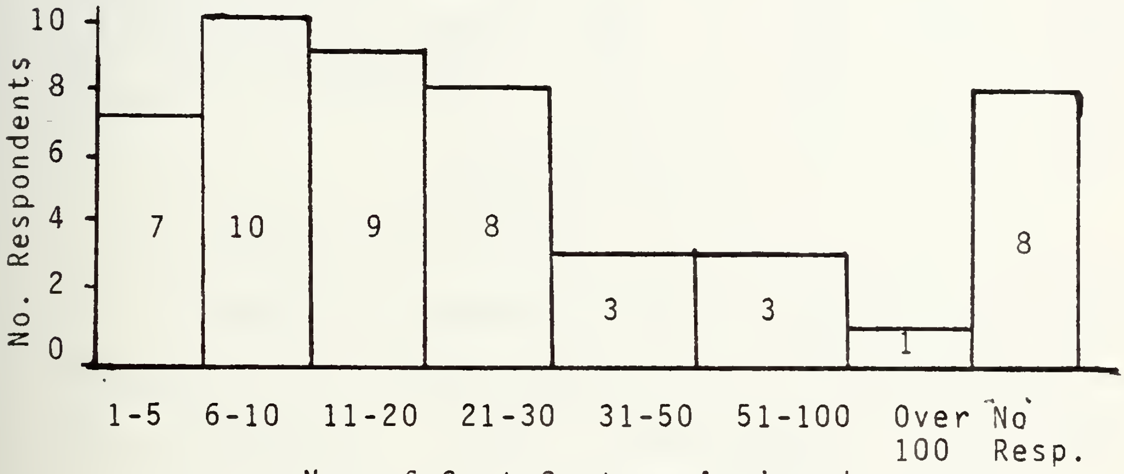


Exhibit 4-4

TYPE OF FUNDS CONTROL

	Question	No. Respond	Yes	No	Pct.Yes
1)	Centralized	36	28	8	77.8
2)	Decentralized	35	13	22	37.1
3)	Mix	36	18	18	50.0

Exhibit 4-5

b. Goals and Objectives

The questions asked in this subsection are shown below. Results are tabulated in Exhibit 4-6.

1) Are the command's overall goals and objectives reiterated in financial terms and promulgated by the comptroller?
2) Is the impact of funding levels on mission support communicated to all managers?

3) Are department heads required to promulgate goals and objectives?
4) Are they required to also state their goals and objectives in financial terms, consistent with the comptroller's guidance?

GOALS AND OBJECTIVES (G&O) RESULTS

	Question	No. Respond	Yes	No	Pct. Yes
1)	G&O in financial terms by comptroller?	48	37	11	77.1
2)	Impact of funding levels communicated?	49	45	4	91.8
3)	G&O by Department Heads?	48	34	14	70.8
4)	Dept. G&O in financial terms?	48	29	19	60.4

Exhibit 4-6

c. Resource Allocation

The first question in this subsection asked whether the commanding officer was specifically involved in all resource allocation decisions. Of the 49 respondents, 23, representing 46.9%, answered positively. The next question inquired as to the existence of a Resource Allocation Board, Budget Execution Committee or the like. 17 of 49 respondents, representing 34.7% of the sample, answered positively. One respondent indicated that such a board existed for budget development, but not for execution. Another command reported that an ad-hoc committee was on call, but was primarily utilized at year-end. One other activity claimed that because 95% of resources were fixed or semi-fixed, a budget execution committee was not considered appropriate.

The 17 respondents who indicated that a board or committee did exist were asked to answer the following questions:

1) Is this board specifically involved in resource allocation decisions?
2) Is the board chaired by the CO?
3) Is the board chaired by the comptroller?
4) Are all command departments, cost centers, or organizational elements represented on the board?
5) Is the board involved in the monitoring function of resource utilization?
6) Is the board involved in reprogramming decisions?
7) Is the board involved in recoupment actions?
8) Do they make recommendations regarding changes to goals and objectives based on changing conditions and actual resource utilization?

Results are shown in Exhibit 4-7.

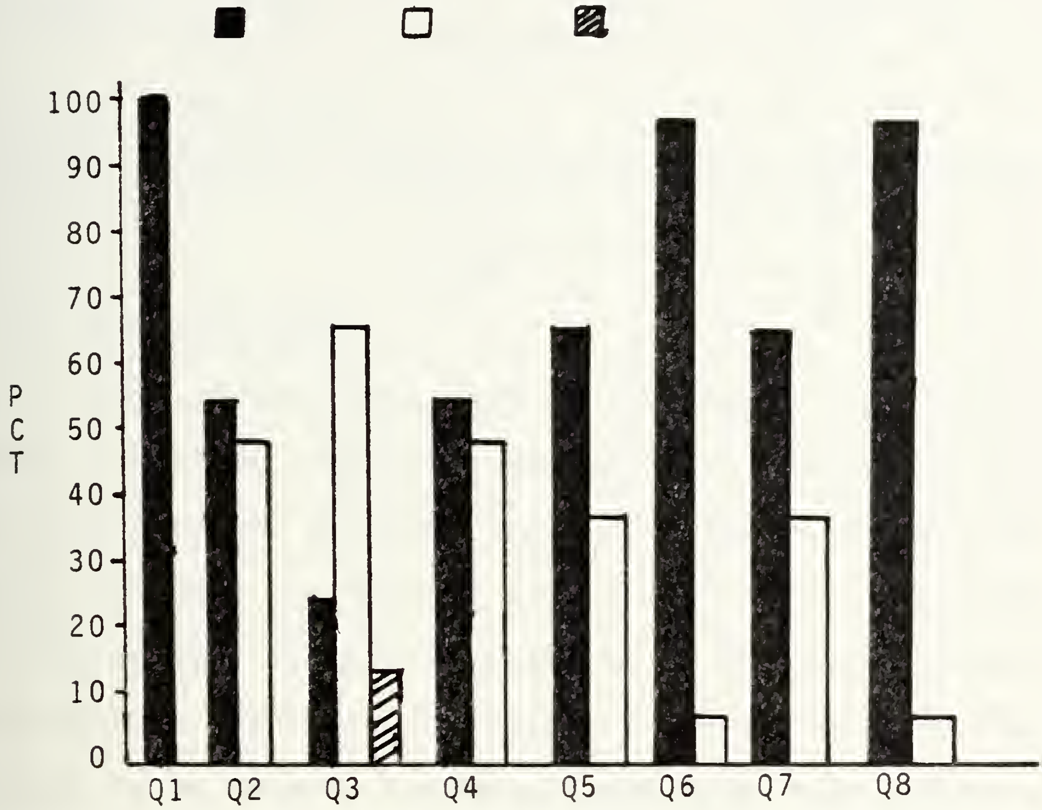
The remaining questions in the resource allocation subsection are shown below. Responses to questions 9, 10, 11, and 13 are tabulated in Exhibit 4-8. The compilation of replies regarding the percentage of funds centrally managed to meet emergency requirements yielded the following results:

Amount	No. Respond
1% or below	18
5%	5
10%	3
20-30%	1
50%	1
Insignificant (<.001)	5
Varying	4

The questions asked were:

9) Are funds centrally maintained to meet emergency requirements?
10) Are they managed by the CO?
11) Are they managed by the comptroller?
12) What percentage of total O&MN funds do they represent?
13) Is a command-wide funding schedule promulgated?

Budget Execution Committee Questions (17 replies)



*Chaired by XO

Q1 Involved in all resource allocation decisions?

Q2 Chaired by CO?

Q3 Chaired by Comptroller?

Q4 All Organizational elements represented?

Q5 Involved in monitoring resource utilization?

Q6 Involved in reprogramming decisions?

Q7 Involved in recoupment actions?

Q8 Make recommendations to change G&O?

EXHIBIT 4-7

FUNDS FOR EMERGENCIES

	Question	No. Respond	Yes	No	Pct. Yes
9)	Emergency funds kept?	49	37*	12	75.5
10)	Managed by CO?	41	18**	21	43.9
11)	Managed by Compt.?	32	29***	3	90.6
13)	Funding schedule promulgated?	47	38	9	80.9

* 1 only for travel.
** 1 only during September.
*** Some respondents answered positively to both questions 10 and 11.

Exhibit 4-8

2. Administration

This section consisted of five basic topics or questions. The first question inquired as to whether or not specific guidance was provided from the major claimant which solely addressed the area of budget execution. For those replying negatively to this question, a follow-on question asked whether such specific guidance was provided by the major claimant in an overall financial management instruction or budgeting directive. The responses to these questions are highlighted in Exhibit 4-9.

The next question, and the tabulation of replies of the 49 respondents thereto, is shown below:

a. What form does the majority of command financial management guidance take?

	No. Respond	Pct.
Instructions	23	46.9
Notices	16	32.7
Budget Meetings	27	55.1
Memorandum	36	73.5
Verbal Instructions	25	51.0

The third set of questions related to the existence of specific budget execution guidance at the field activity

level. Similar to the questions concerning guidance from the major claimant, each field activity was asked if there was a command promulgated directive or manual specifically relating to budget execution. For those replying negatively, the follow-on question asked if such guidance was provided in an overall financial management instruction or budgetary directive. Responses are diagramatically shown in Exhibit 4-10. An unexplained inconsistency exists in that 27 commands responded negatively to the first question stating that there was no budget execution directive, yet a total of 31 commands responded to the second question which addressed the content of the budget execution directive.

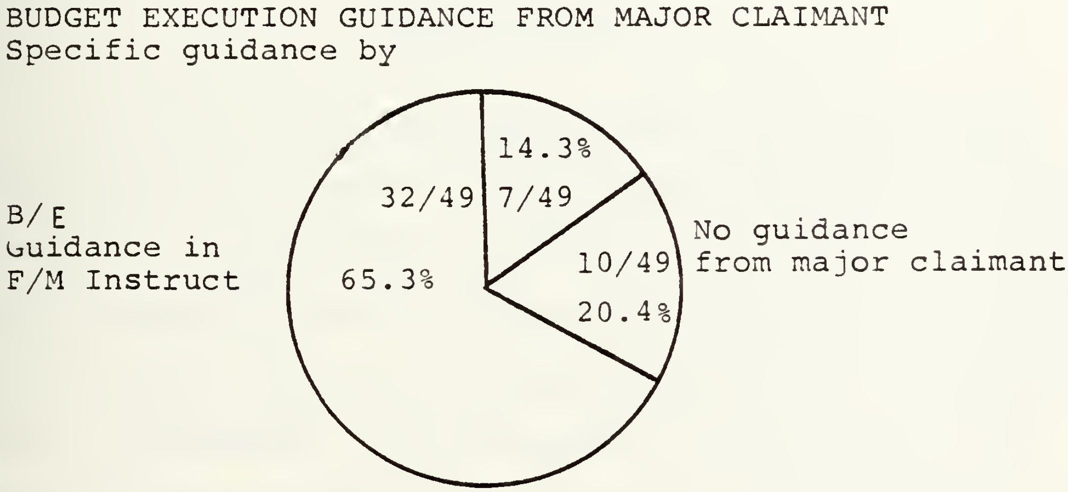
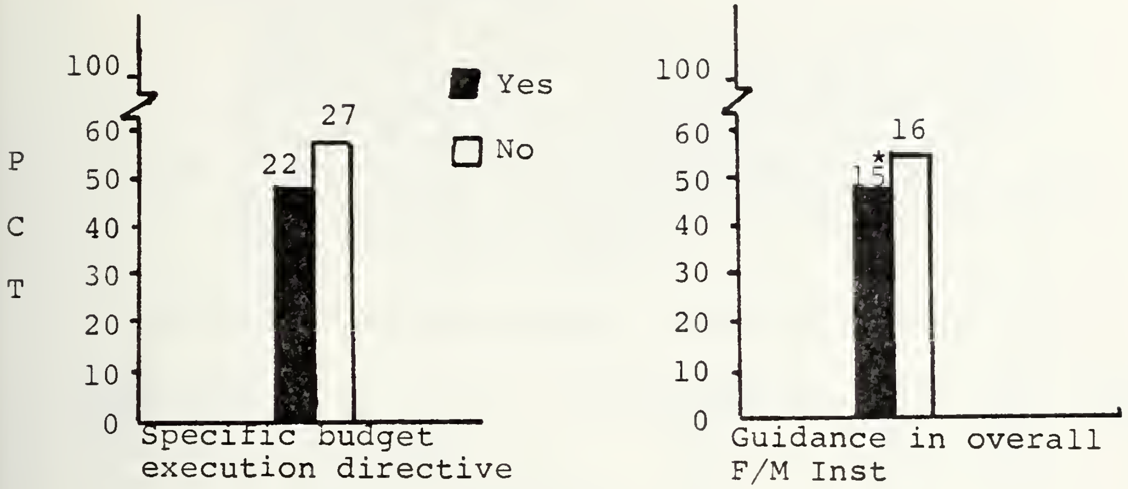


Exhibit 4-9

FIELD ACTIVITY BUDGET EXECUTION GUIDANCE



*1 respondent indicated that guidance was provided only in the form of fenced programs.

Exhibit 4-10

The next set of questions, shown hereunder, asked specifics about the content of the budget execution directive. Although only 22 respondents indicated that they had a budget execution directive and 15 indicated that guidance was contained in an overall financial management directive, 28 answered this set of questions. The assumption is that some of the respondents for the later group replied to the questions based on the content of their overall financial management instruction. Exhibit 4-11 provides a tabulation of the results of this set of questions. The questions asked were:

b. If yes, does the budget execution directive specifically address:
   1) Measurement criteria?
   2) Management control systems or procedures?
   3) Standardization of record keeping at the OPTAR holder/Cost Center/Department level?
   4) Standardization of internal reporting?
   5) Requirements for external reporting?
   6) How to glean required management information from financial reports?

CONTENT OF COMMAND BUDGET EXECUTION INSTRUCTION

	Question	No. Respond	Yes	No	Pct. Yes
1)	Measurement criteria?	28	17	11	60.7
2)	Management Control?	28	17	11	60.7
3)	Standard record keeping?	28	20	8	71.4
4)	Standard internal reporting?	28	20	8	71.4
5)	Requirements for external reporting?	28	17	11	60.7
6)	How to glean management info from financial reports?	28	18	10	64.3

Exhibit 4-11

The fourth general question asked whether critical costs were identified by the comptroller. 46 of 49 respondents, representing 93.9%, responded positively. The final question in the Administration Section inquired as to whether operation and support costs were prioritized at the command, department and cost center levels. Results are shown in Exhibit 4-12.

OPS AND SUPPORT COSTS PRIORITIZED

Level	No. Respond	Yes	No	Pct.Yes
Command	44	40	4	90.9
Department	33	25	8	75.8
Cost Center	34	18	16	52.9

Exhibit 4-12

3. Management Control

This was the largest section of the questionnaire, consisting of nine basic subsections, each containing a significant numbers of questions. The nine subsections were: Effectiveness/Efficiency and Productivity Measurement; Reporting Systems; Variance Analysis; Interaction with AAA; Reprogramming/Recoupment; Incentive Programs; Obligations and Expenditures; Budget Reviews and; Internal Audit Function.

a. Effectiveness/Efficiency and Productivity Measurement

The first question asked whether measurable, quantitative goals were established for all subordinate groups and, where applicable for individuals, in the areas of cost, quality and schedule. Results are shown in Exhibit 4-13.

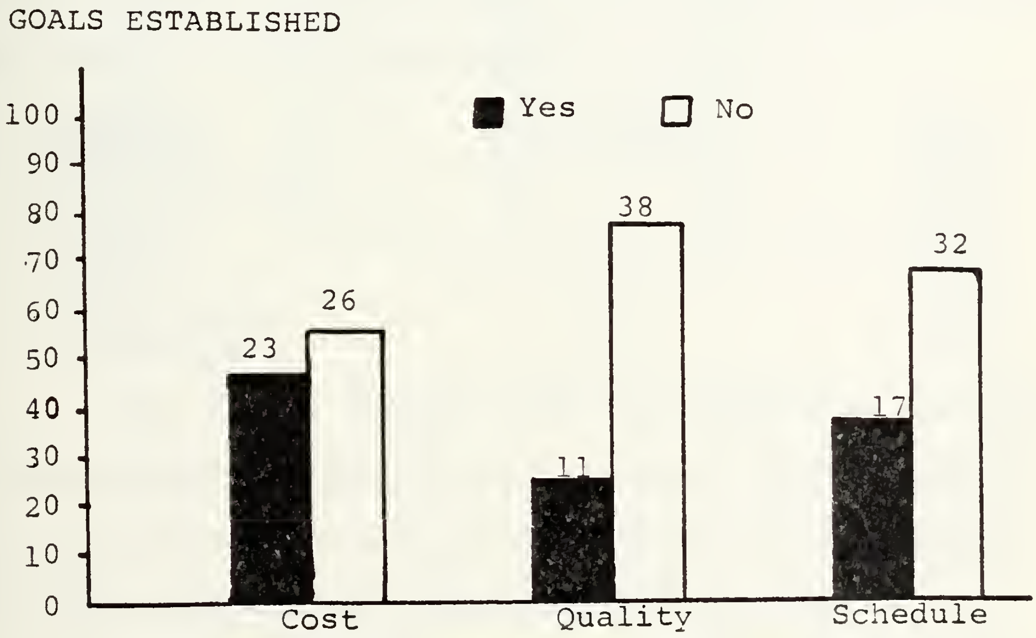


Exhibit 4-13

The second set of questions asked whether effectiveness and efficiency standards were established for major mission elements, if measurement criteria were promulgated, and if the effectiveness and efficiency standards could be traced to resource utilization. Only 22 of 49 respondents, representing 44.9 percent, indicated standards had been established. 21 of 49 (42.9%) claimed that measurement criterion were promulgated. 20 of 47 respondents (42.6%) said that the standards could be traced to resource utilization.

The third question asked if the control system provided for feedback of information which is used to evaluate the continued validity of standards. 23 of 49 respondents, representing 46.9%, replied affirmatively. When asked how often the standards were reviewed, the following information was provided by the 26 respondents:

Frequency	No. Respond	Pct.
Annually	2	7.7
Semi-Annually	4	15.4
Quarterly	7	26.9
Monthly	7	26.9
Weekly	2	7.7
Continuously	2	7.7
As Required	2	7.7

The fourth question asked if department workload data was compiled, monitored and used as a standard against actual performance. 27 of the 49 commands who replied, or 55.1% of the respondents, indicated that they did.

The last group of questions in this subsection were:

1) Are critical outputs specifically delineated for each program or function?
2) Are work counts and time utilization records maintained for these critical outputs?
3) Are counts and time records matched against historical trends or results from similar operations?
4) Are performance standards set for these critical program outputs?

The responses of the activities who replied are shown in Exhibit 4-14.

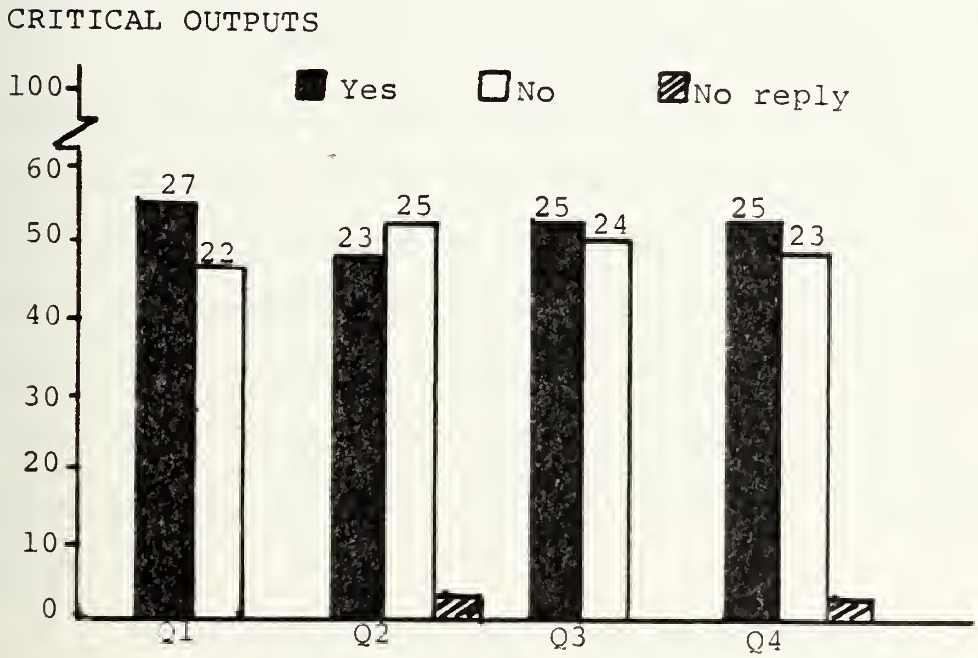


Exhibit 4-14

b. Reporting Systems

The first set of questions was concerned with how often funds status reports were received by management and to what level in the organization the reports were sent. Some respondents provided multiple answers to both parts of the question. Of the 49 activities who responded, 29 (59.2%) said

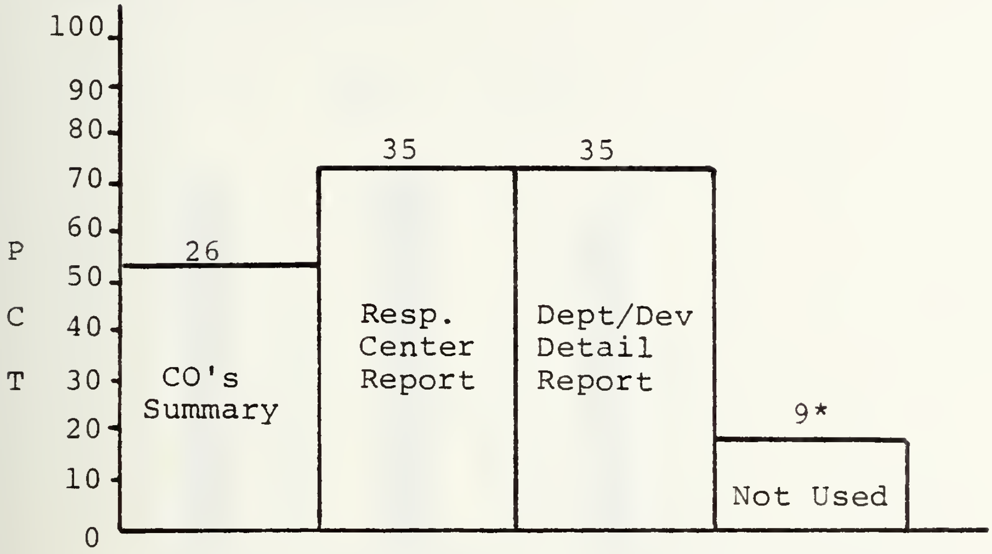
that management received funds status reports weekly, 29 (59.2%) monthly and 10 (20.4%) quarterly (some respondents provided a multiple response). The level to which the reports were sent broke out as follows:

Level	No. Respond	Pct.
CO	25	51.0
Comptroller	37	75.5
Department	27	55.1
Cost Center	23	46.9
XO	1	2.0
Executive Director	1	2.0

The second set of questions concerned the Uniform Management Reporting (UMR) System. Field activities were first asked which funds control reports they received, how often they were received and whether or not they were timely, accurate and useful for management control. In regard to the frequency of receipt, 44 activities replied: 9 weekly (20.5%); 34 monthly (77.3%); and 1 'individual access by remote terminal' (2.0%). The responses to the other two questions are shown in Exhibits 4-15 and 4-16.

The activities were then asked a similar set of questions concerning the Performance Report formats available in the UMR system. In regard to frequency of receipt, 1 indicated weekly receipt, 36 monthly receipt, and 1 semi-annual receipt. In completing this section, two activities indicated that they received funds control reports but not performance reports. One $25 million EOB holder indicated non-use, labeling the UMR Performance Report as a 'useless report.' The responses to the format and quality questions are depicted in Exhibits 4-17 and 4-18.

FUNDS CONTROL REPORTS RECEIVED (49 replies)



*Of the nine respondents who reported non-use, 3 indicated non-familiarity with the reports.

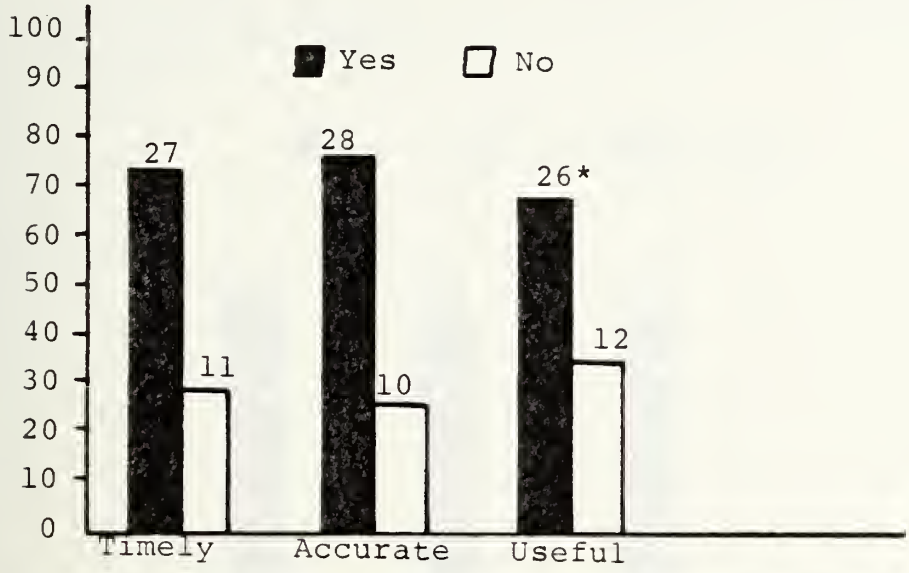
Exhibit 4-15

The final questions on the UMR system addressed utilization of optional reports:

1) Do you receive any optional report product under the UMR system such as a Budget Line Item Report?
    a) Are you aware of all the UMR optional reports available?
    b) Are these reports useful for management control?

The tabulation of the replies to these questions is shown in Exhibit 4-19.

TIMELINESS, ACCURACY AND USEFULNESS OF FUNDS CONTROL REPORTS (38 replies)



*Two respondents indicated usefulness for historical purposes only.

Exhibit 4-16

PERFORMANCE REPORT FORMATS RECEIVED (49 replies)

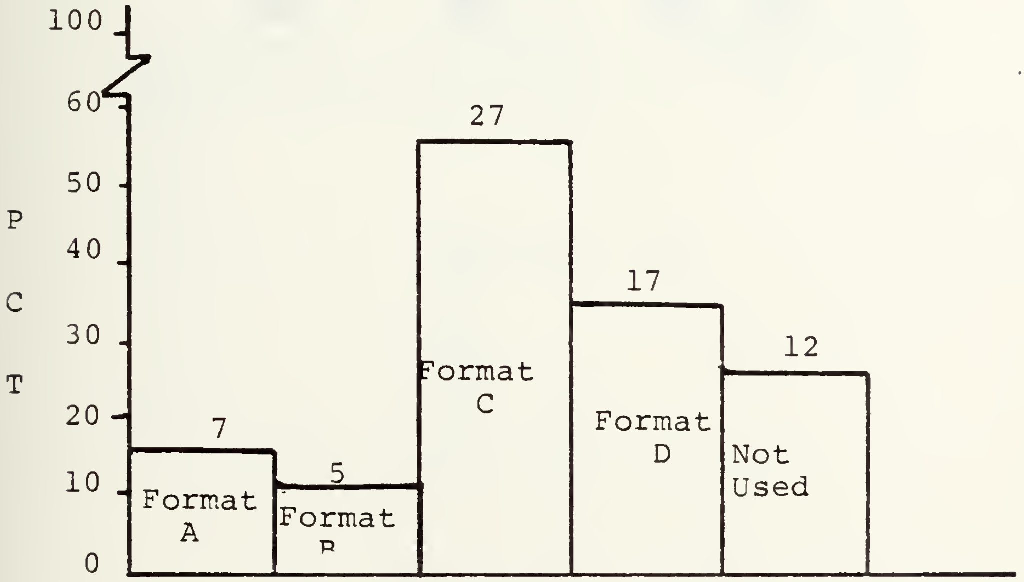
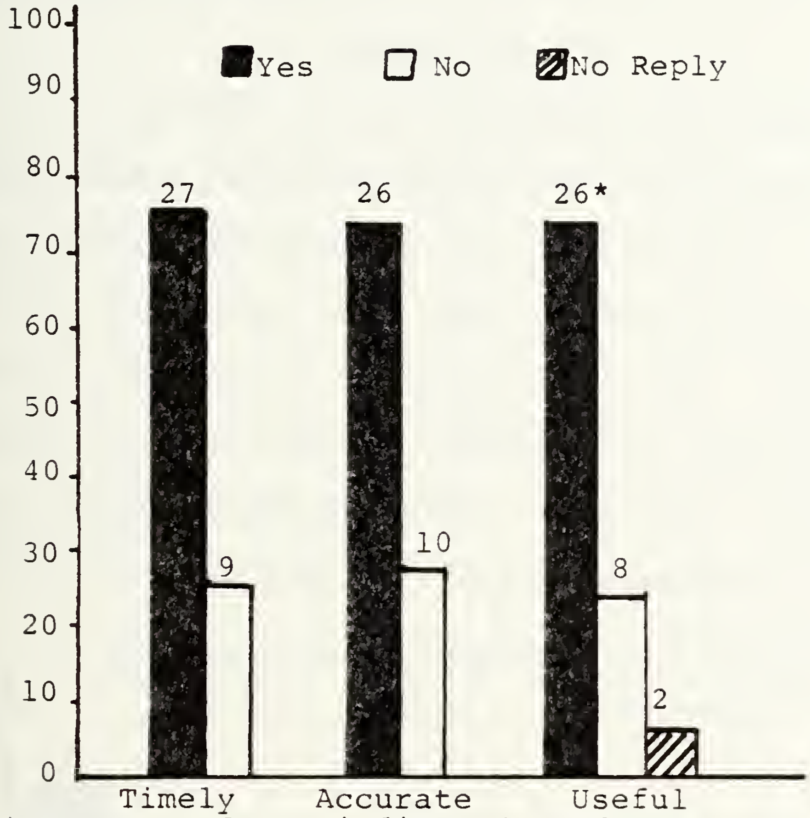


Exhibit 4-17

TIMELINESS, ACCURACY AND USEFULNESS OF PERFORMANCE REPORTS (36 replies)



*Two respondents indicated usefulness for historical purposes only.

Exhibit 4-18

OPTIONAL REPORT USE

	Question	No. Respond	Yes	No	Pct.Yes
1)	Receive Optional Report?	39	10	29	25.6
1a)	Aware of Optional Reports?	40	28	12	70.0
1b)	Reports Useful?	28	13*	15	46.4

*Two respondents indicated 'somewhat' useful for management control.

Exhibit 4-19

The third set of questions were concerned with a results-oriented reporting system other than the UMR system. After an overall question on the existence of such a system, seven basic questions, some with follow-on inquiries, were addressed. The overall question asked was: "Aside from the UMR System, has the command established a results-oriented reporting system which provides: Financial results? / Performance Results?" The responses are depicted in Exhibit 4-20.

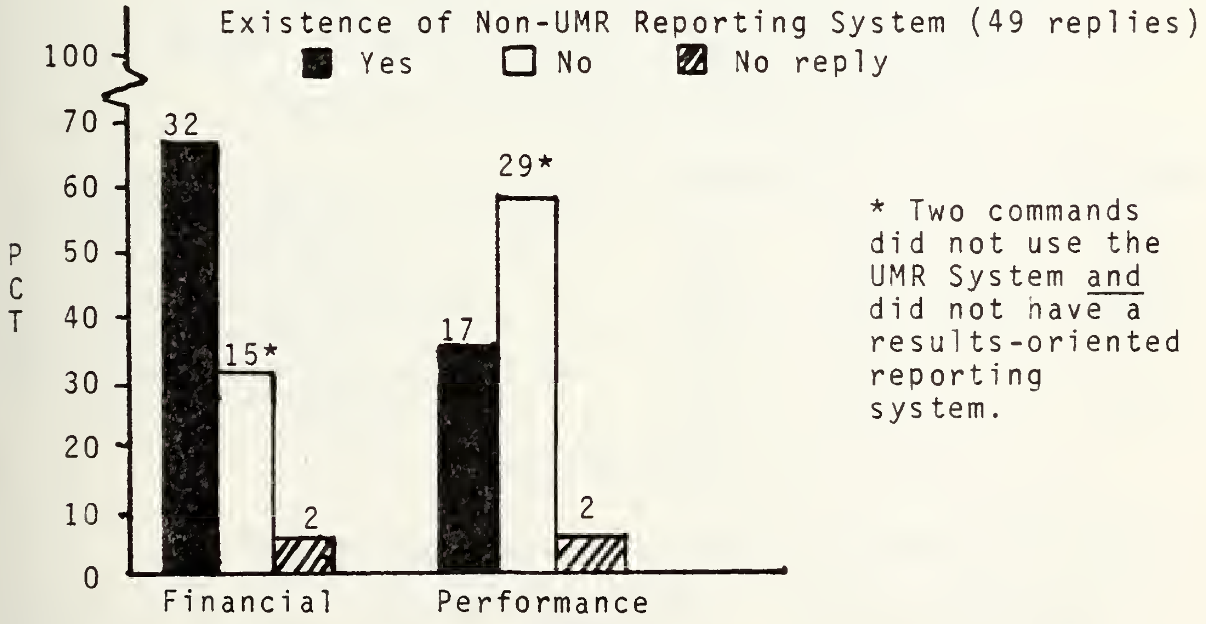


Exhibit 4-20

Within the set of seven non-UMR reporting system questions, the first two asked the level to which the reports were addressed and inquired as to timeliness and accuracy. Of the 33 replying, 26 commands (78.8%) indicated the reports were addressed to the CO level, 23 (69.7%) to the comptroller level, 20 (60.6%) to the department head level and 2 (6.1%) to the cost center level. 32 of 36 (88.9%) considered the reports to be timely; 29 of 33 (87.9%) considered the reports to be accurate.

The third group of questions were as shown below. Results are tabulated in Exhibit 4-21.

1) Do the reports compare actual program results with planned results?
2) Financial results?
3) Performance results?
    a) Is there a clearly identifiable cross-walk between financial and performance reports?
    b) Do they show actual results in the same format and period as the budgeted estimates?

ASPECTS OF NON-UMR REPORTING SYSTEM

	Question	No. Respond	Yes	No	Pct.Yes
1)	Compare actual with planned results?	37	34	3	91.9
2)	Financial results?	35	32	3	91.4
3)	Performance results?	32	17	15	53.1
3a)	Cross-walk?	34	14	20	41.2
3b)	Same format and period as budget estimates?	36	23	13	63.9

Exhibit 4-21

The fourth question asked if variances in financial results were clearly highlighted. Of 38 respondents, 23 answered affirmatively, representing 60.5 percent. The fifth question inquired as to the existence of some media for

displaying current fund status with relation to the budget. Of 43 activities responding to this question, 35 answered positively, for a response rate of 81.4%.

100% (40 of 40) of the respondents who replied answered the sixth question in the affirmative. The question asked whether the reporting system was reviewed periodically to ensure validity. The frequency of review, tabulated below, was only indicated by 32 respondents:

Frequency	No. Respond	Pct.
Annually	4	12.5
Semi-annually	1	3.1
Quarterly	10	31.3
Bi-Monthly	1	3.1
Monthly	11	34.4
Bi-Weekly	1	3.1
On-Going	1	3.1
As Time Permits	3	9.4

The final question in the Reporting System subsection of the questionnaire asked: "Does the reporting system spotlight conditions requiring action in time for action to be taken?" Of 39 activities responding, 29 indicated that it did, reflecting 74.4 percent.

c. Variance Analysis

This subjection of the management control portion of the questionnaire contained 11 basic questions. Before highlighting the questions and arraying the responses, it should be noted that, of the 49 respondents to the questionnaire, 8 (16.3%) reported that they did not do any variance analysis at all.

The first question asked if the performance generated by the reporting system provided information which readily lent itself to variance analysis. 33 of the 48 activities which responded, representing 68.8%, answered positively. The second group of questions was as follows:

Is there a formal reporting mechanism which:
1) Requires explanations for variances from the budget?
2) Provides causes/effects of variances?
3) Contains revised estimates when actual results differ substantially from anticipated results?
4) Forecasts needs and anticipated results through the end of the budget period?

The replies of the 46 respondents are diagrammatically shown in Exhibit 4-22.

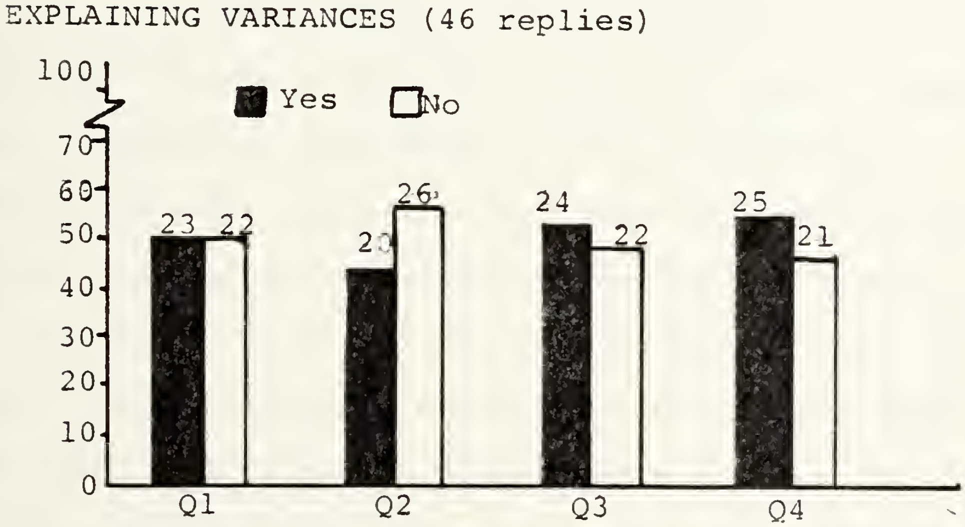


Exhibit 4-22

The next question inquired whether or not positive as well as negative variances were investigated and the results thereof promulgated to operating managers. 32 of 46 respondents (69.6%) responded affirmatively. The two sets of questions following concerned corrective action and follow-up, and the fixing of responsibility. The responses are tabulated in Exhibit 4-23. The specific questions asked were:

1) Is corrective action initiated or recommended every time there is a significant variance?
   a) Is any formal follow-up conducted to verify implementation of reported corrective actions?
2) Does the control system provide for fixing responsibility for deviations from established standards or variations from budgets?
   a) Is the information officially fed back to appropriate managers?
   b) Is such information considered, in part, in the area of personnel performance evaluation?

The sixth question asked if significant variances were discussed by the commanding officer or Budget Committee with the responsible individual. 31 of 46 respondents (67.4%) answered positively. However, when asked if specific sanctions were utilized for recurrent instances of negative variances, only 8 of the 46 (17.4%) replied positively. Although the questionnaire contained a provision for an explanation for the response to the question concerning sanctions, only five respondents provided any written comments. The explanations provided were:

Response		Comment
1.	No	Corrective action taken precluding the need for sanctions.
2.	No	Guidance provided advisory in nature.
3.	Yes	Manpower reallocations.
4.	Yes	Explanation to the commanding officer.
5.	Yes	Targets adjusted or funds reprogrammed.

The next group of questions inquired as to the use of various analytical tools in studying variances. Results are shown in Exhibit 4-24. The last three questions in the subsection on variance analysis analysis are shown below. Replies are tabulated in Exhibit 4-25.

Is provision made for the prompt expediting and feedback of information to management on variances and their effects?
Does the control system provide for periodic spot-checks, outside of normal variance reporting, to ensure conformity to establish requirements?
Does the reporting system have a mechanism for evaluating changes when a significant amount of workload is added to or withdrawn from budget workload?

d. Interaction with AAA

This subsection consisted of six basic questions. The first asked if budget revisions were promptly submitted to the AAA. 42 of 46 respondents (91.3%) answered positively. The next question asked how often financial and performance reports were reconciled with the AAA. A follow-on question asked if all or part of the reports were reconciled. Of the 43 commands responding to this question on the frequency of the reconciliation process, 32 (74.4%) indicated that it occurred monthly, 8 (18.6%) quarterly and 3 (7.0%) weekly. 42 activities responded to the follow-on question. 32 (76.2%)

VARIANCE FOLLOW-UP

	Question	No. Respond	Yes	No	Pct.Yes
1)	Corrective action initiated?	46	30	16	65.2
1a)	Implementation verified?	45	28	17	62.2
2)	Provide for fixing responsibility?	45	23	22	51.1
2a)	Info officially fed back?	46	25	21	54.3
2b)	Info considered in personnel performance evaluation?	46	13	33	28.3

Exhibit 4-23

ANALYTICAL TOOLS UTILIZED FOR VARIANCE ANALYSIS

Analytical Tool	No. Using (of 49)	Pct.
Time Series Analysis	9	18.4
Regression Analysis	5	10.2
Operations Research	8	16.3
Simulation	3	6.1
Statistical Inference	12	24.5
Linear Programming	3	6.1
Correlation Analysis	8	16.3
Sensitivity Analysis	5	10.2
Trend Analysis*	1	2.0
Experience and Communication*	1	2.0

*Written in by respondents

Exhibit 4-24

FEEDBACK, SPOT-CHECKS AND ADJUSTING FOR WORKLOAD CHANGES

	Question	No. Respond	Yes	No	Pct.Yes
1)	Prompt feedback of variance info to managers?	47	35*	12	74.5
2)	Periodic spot-checks provided for, outside normal variance reporting?	46	27	19	58.7
3)	Mechanism for adjusting to workload changes?	47	23	24	48.9

*Two respondents who indicated the absence of a variance analysis program at all, replied affirmatively to this question.

Exhibit 4-25

declared that all of the reports (financial and performance) were reconciled. Of the ten who stated that only part of the reports were reconciled, four provided brief explanations: one said that reconciliation only involved significant variances; another claimed that only expenditures and obligations were reconciled; a third indicated time did not permit reconciliation of all; and the fourth declared only the document control file was reconciled.

The third, fourth and fifth questions were:

1) Does the AAA provide sufficient guidance describing how to read and utilize the reports they generate?
2) Are specific procedures delineated by the AAA regarding report reconciliation?
3) Are the AAA reports received: Timely? Accurate?

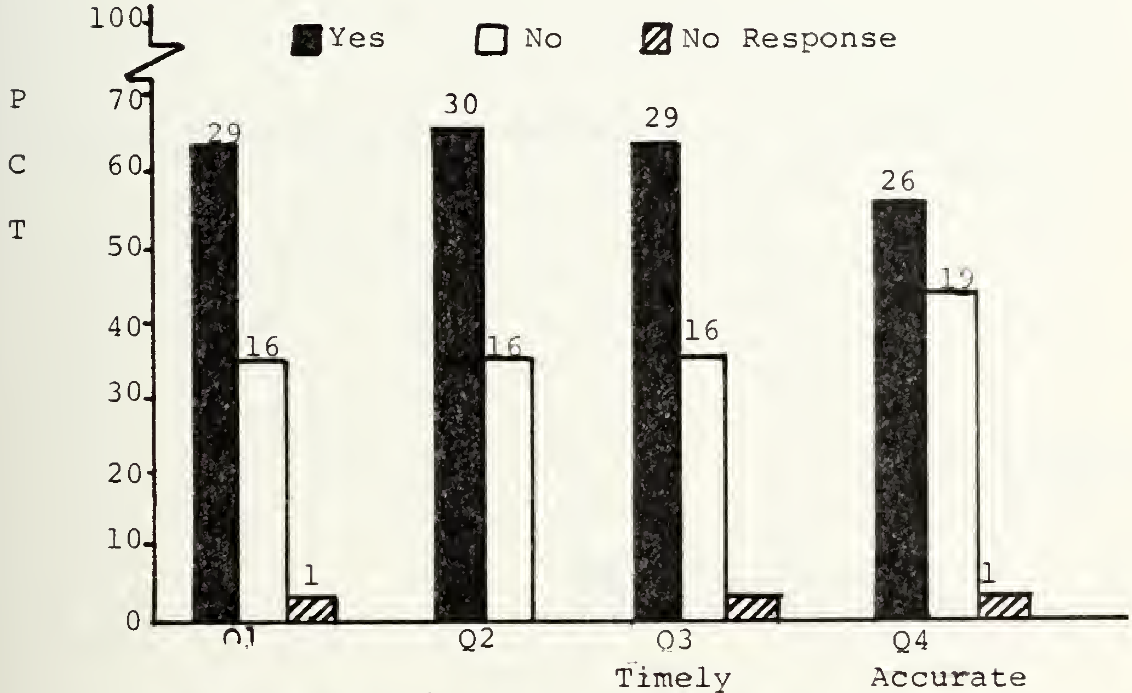
Responses to these questions are graphically provided in Exhibit 4-26.

The final question in this subsection asked if interface with the AAA occurred only at the comptroller level. Those replying negatively were asked to provide an explanation. 26 of 44 respondents, representing 59.1%, disclosed that the interface did only occur at the comptroller level. Of the 18 who replied negatively, 10 said that interface occurs at the budget analyst/supply clerk level and 6 said interface occurred at the department/division level.

e. Reprogramming/Recoupment

This subsection also consisted of six general questions, some of which contained multiple parts. The responses of the field activities to the first question indicated

AAA REPORTS INFO (46 respondents)



Q1 Does AAA provide sufficient guidance on the use of reports?

Q2 Are procedures delineated by AAA for reconciliation?

Q3 Are reports received. Timely? Accurate?

Exhibit 4-26

LEVEL OF REPROGRAMMING DECISIONS (49 respondents)

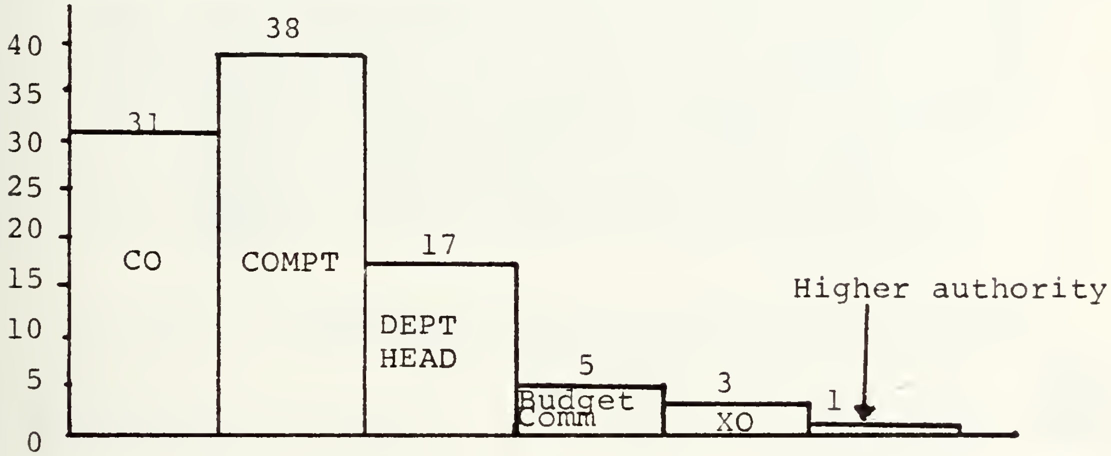


Exhibit 4-27

the level at which reprogramming decisions were routinely made. They are shown in Exhibit 4-27. The second question, which asked if specific guidance on the limitations of reprogramming actions and procedures for requesting additional funds was provided to operating managers, resulted in a 93.5% (43 of 49) positive response. The third basic question concerned command actions taken if departmental/cost center authorization limits were reached before the end of the funding period. Results are shown in Exhibit 4-28. The questions asked were:

1) When department/cost center authorization limits are reached before the end of an interim period (month, quarter, etc.) does the system:
   a) Provide for the discontinuation of funding
   b) Require the department to submit data to support the need for increased funds?
   c) Require the CO's approval for additional funds?

ACTIONS IF DEPARTMENT AUTHORIZATION LIMIT REACHED

	Question	No. Respond	Yes	No	Pct.Yes
1a)	Discontinue funding?	39	22	17	56.4
1b)	Data required to support need?	47	42	5	89.4
1c)	Require CO's approval for additional funds?	41	29	12	70.7

Exhibit 4-28

The fourth question inquired as to whether appropriate managerial actions were initiated when authorization (or OPTAR) limits were exceeded without command approval. Any explanation of the normal form of such actions was also requested. 32 of 44 (72.7%) claimed that management actions were initiated. The routine form of such actions was reported as:

Form of Management Action	No. Respond
Personal interview with CO/XO	6
Formal justification to CO	6
Verbal discussion or memorandum	5
Request for explanation of correction action	4
Verbal reprimand	2
Report to Type Commander	2
Budget Committee meeting	1
Administrative disciplinary actions	1
Education on procedure to obtain additional funds	1

The last two questions in this subsection were:

1) Are excess funds routinely identified and reported for possible reprogramming?
   a) How often? ______________________
   b) Do operating managers willingly report any excesses?
2) Are all operating managers cognizant of and following recoupment directives?

95.8% (46 of 48) of the respondents declared that excess funds were routinely identified and reported. Of the 46, only 40 replied to the question on frequency. Their responses are summarized as follows:

Frequency of identification of excess	No. Respond	Pct.
Monthly	17	42.5
Quarterly	15	37.5
As Necessary	3	7.5
End of Fiscal Year	2	5.0
Weekly, Daily, and 'Frequently'	1 each	7.5

Only 21 of 47, representing 44.7% of the respondents, affirmed the willingness of operating managers to report any excesses. 32 of the 43 activities (74.4%) who replied to the last question in this subsection indicated that all operating managers were cognizant of and followed recoupment directives.

f. Incentive Programs

This subsection was concerned with the type and content of incentive programs in existence at shore commands.

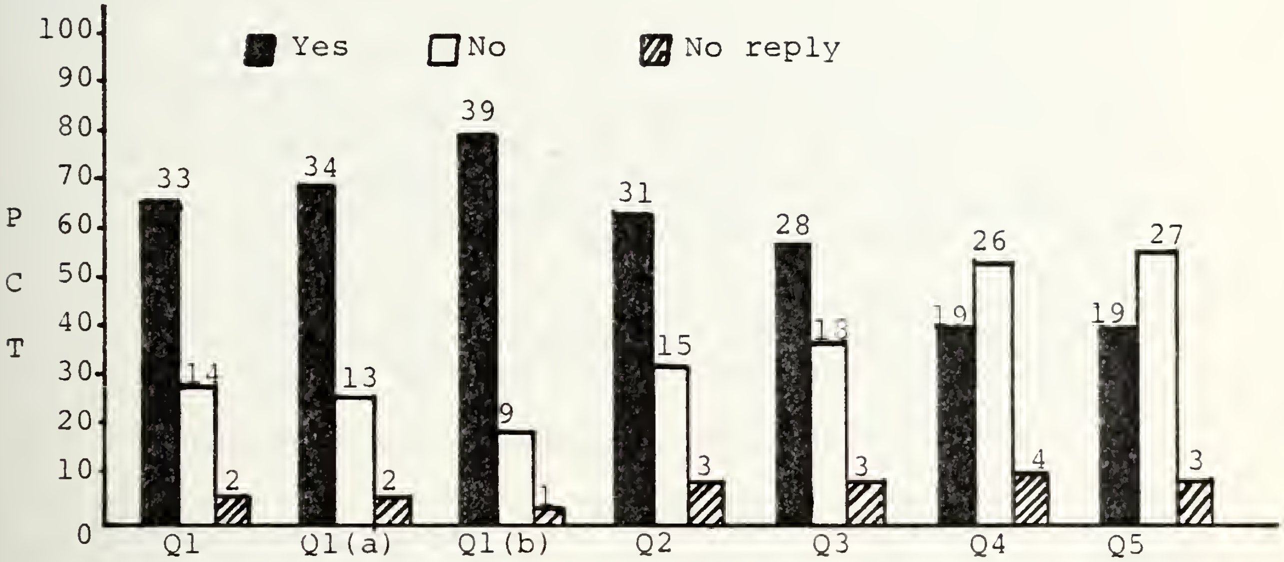
Of the 49 total questionnaires returned by field activities, 7 (14.3%) declared that they had no incentive program at all, 2 (4.1%) indicated that the Navy's Beneficial Suggestion Program was the only incentive program in effect, and 1 (2.0%) said that a program was established but not pursued. The questions in this subsection, as well as the results, are contained in Exhibit 4-29.

g. Obligations and Expenditures

Eight basic questions, some with multiple parts, comprised this subsection. The first question asked if actual costs were recorded on an obligation basis and an expense basis. 39 of 48 (81.3%) revealed costs were recorded on an obligation basis and 36 of 44 (81.8%) said costs were recorded on an expense basis. Compilation of the responses to the second question, which asked if formal comparisons were made between budgeted and actual obligations, showed a 89.6% (43 of 48) positive response rate. 19 activities (39.6%) said the comparisons were made by the comptroller, 25 (52.1%) said the financial management division or budget analyst, and 1 (2.1%) said the major claimant. The frequency of such comparisons were reported by the 41 who responded as:

Frequency of Comparisons	No. Respond	Pct.
Monthly	27	65.6
Quarterly	5	12.2
Weekly	3	7.3
Continuous	3	7.3
Annually, Bi-Weekly, Randomly	1 each	7.3

INCENTIVE PROGRAM CONTENT (49 replies)



Q1 Does the command have an incentive program to stimulate productivity improvement?
   a) Are monetary awards or bonuses offered?
   b) Are recognition items such as certificates or awards given?

Q2 Do formal communication channels publicize productivity improvement?

Q3 Do productivity improvement goals include both efficiency and effectiveness criteria?

Q4 Is productivity improvement regularly discussed in budget performance meetings?

Q5 Do operating managers receive recognition for achieving objectives for less than the budgeted amount?

Exhibit 4-29

The third question, which concerned the functional location for the tracking of reimbursables, was poorly worded and therefore did not provide any meaningful results. The fourth question, which contained five parts, is shown below. Results are tabulated in Exhibit 4-30.

1) Does the obligation and expenditure approval functions:
   a) Follow centrally delineated guidelines?
   b) Include determination that the amount does not exceed the authorization level?
   c) Include determination that the expenditure is in line with the purpose detailed in the budget?
   d) Ensure proper coding of the expenditure to facilitate recording in the accounting system?
   e) Ensure that available discounts are taken?

OBLIGATION AND EXPENDITURE APPROVAL FUNCTIONS

Question	No. Respond	Yes	No	Pct.Yes
1a) Follow centrally delineated guidelines?	48	48	0	100.0
b) Check against authorization level?	48	48	0	100.0
c) Check if in line with purpose?	47	44	3	93.6
d) Ensure proper coding?	48	46	2	95.8
e) Ensure discounts taken?	47	39	8	83.0

Exhibit 4-30

The fifth question in this subsection asked: "Are OPTAR holders or persons with obligation authority provided firm dollar limits or spending authority for specific items?" 44 of 46 respondents (95.7%) answered affirmatively. The sixth question, and its four sub-parts, concerned unfunded requirements. Responses are tabulated in Exhibit 4-31. The questions asked were:

1) Is a list of unfunded requirements maintained at the department or cost center level?
   a) Is a prioritized list of command-wide unfunded requirements maintained at the command level?
   b) Is the unfunded requirements list checked whenever a request for additional funding is received so a comparison of priorities can be made?
   c) Does the budget committee periodically review, update and reprioritize the list of unfunded requirements?
   d) Is continuous justification for all unfunded requirements maintained?

UNFUNDED REQUIREMENTS

	Question	No. Respond	Yes	No	Pct.Yes
1)	List maintained at dept/ cost center?	48	39	9	81.3
1a)	Prioritized list at command level?	49	48	1	98.0
1b)	List checked when request for additional funds received?	48	43	5	89.6
1c)	Budget Committee review list?	45	27	18	60.0
1d)	Continuous justification maintained?	48	43	5	89.6

Exhibit 4-31

The seventh question asked whether or not OPTAR holders were provided with obligation cut-off dates for the end of each funding period. 39 of 45 respondents (86.7%) answered positively. The final question in this subsection inquired as to whether or not written quarterly and year-end reconciliation procedures for fiscal records were promulgated to operating managers. Of 48 commands responding, only 31 (64.6%) indicated that such written procedures were provided.

h. Budget Reviews

This subsection was composed of three basic questions. The first, the results of which are shown in Exhibit 4-32, asked at what level the Mid-Year Review was conducted. A subsequent question inquired as to whether or not results of this review were promulgated to operating managers. 37 of 46 respondents, representing 80.4%, indicated that such was the case.

LEVEL AT WHICH MID-YEAR REVIEW CONDUCTED
(46 respondents)

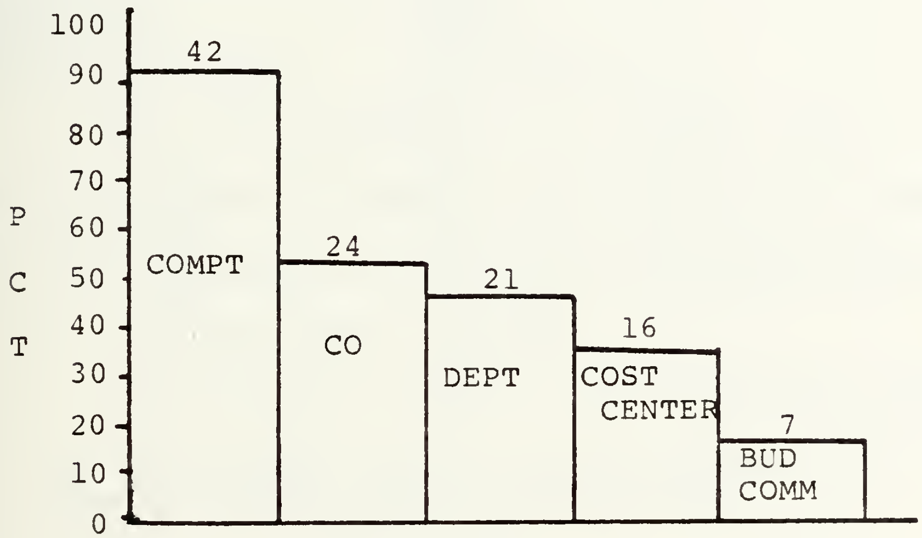


Exhibit 4-32

The second question asked how often other detailed reviews of financial and productive variances were conducted. It also asked who within the chain of command was involved. In regard to frequency, the following information was provided:

Frequency	No. Respond	Pct.
Monthly	24	52.2
Quarterly	7	15.2
As Required by CO	5	10.9
Daily	2	4.3
End of Fiscal Year	1	2.2

In addition to the above responses, 4 commands (8.7%) reported that no detailed reviews of productive variances were held. Responses to the question concerning the level of command involvement in the reviews yielded the following results:

Level	No. Respond	Pct.
CO	27/46	58.7
Comptroller	41/46	89.1
Department Head	39/46	84.8
Budget Office	22/46	47.8
Division, Cost Center	1/46 each	4.4

The final question in the budget review subsection asked if records were reconciled with the AAA following every review. Of 46 respondents, 38 (82.6%) replied affirmatively.

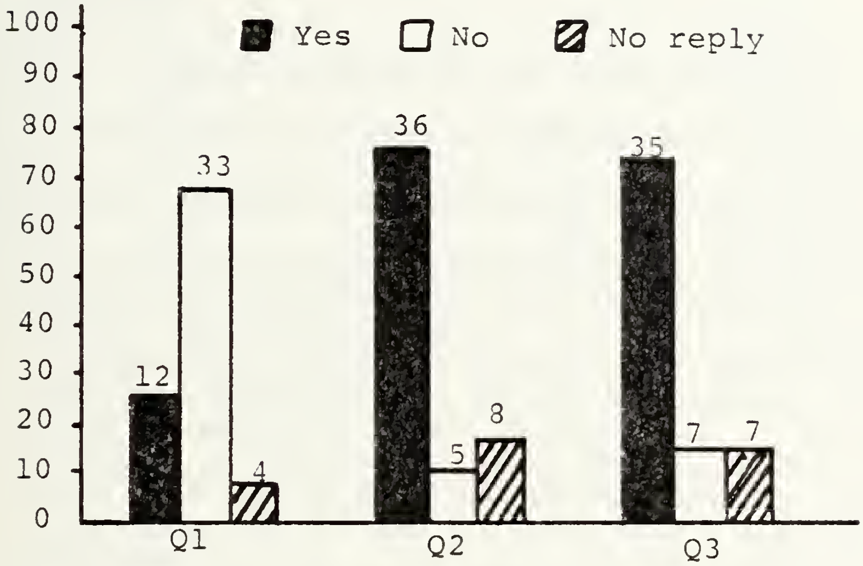
i. Internal Audit Function

The questions asked in this subsection were:

1) Is the internal auditing staff separate and distinct from the comptroller's organization?
2) To whom does the Internal Auditor report?
   CO ____________________ XO ______________________
   Comptroller _________ Budget Committee _______
3) Are formal reports promulgated on the findings of the audit staff?
4) Are formal replies required of operating managers dealing with specific findings?

Responses to questions 1, 3 and 4 are shown in Exhibit 4-33. It should be noted, however, that 7 of the 49 responding commands (14.3%) indicated that the internal audit function was not established, 1 command indicated that the billet was gapped, and

INTERNAL AUDIT FUNCTION (49 replies)



Q1 Staff Separate from comptroller organization?

Q2 Formal reports on findings?

Q3 Formal replies required?

Exhibit 4-33

1 command reported that the comptroller was the auditor.

Responses to question 2 yielded the following results:

Level	No. Respond*
CO	19
Comptroller	22
XO	10
Higher Authority	1

*Some respondents indicated more than one level.

4. Training

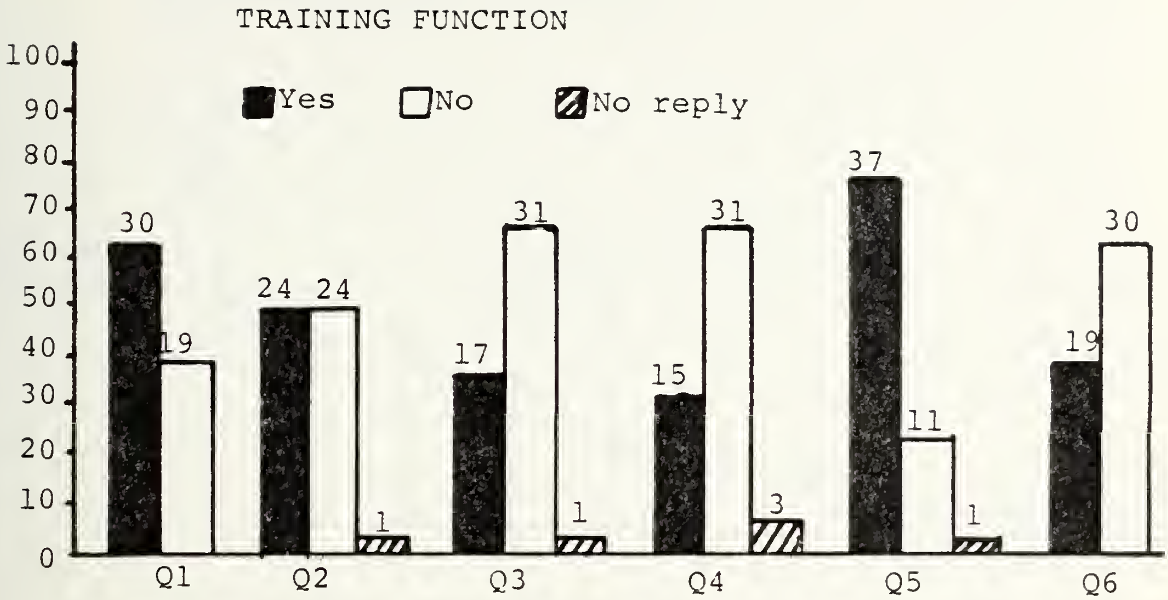
The training section of the questionnaire was comprised of six questions which are shown hereunder. The responses of the 49 replying commands are depicted in Exhibit 4-34.

a. Are training sessions periodically held to acquaint operating managers with resource management procedures and guidelines?
b. Are operating managers required to participate in an indoctrination session in the Comptroller Office prior to assuming their duties?
c. Is there an internal procedures training course or manual for newly reported personnel?
d. Is training conducted periodically on incentive programs?
e. Are frequent steps taken to develop a spirit of cost consciousness throughout the command so each action is weighted in terms of the costs involved?
f. Is the Commanding Officer involved in the indoctrination and training?

5. Miscellaneous

The first question in this section asked respondents to report what percentage of staff time, on an annual basis, was spent on budget formulation and what percentage on budget execution/monitoring. The results are displayed in Exhibits 4-35 and 4-36.

The next three question sets, the results of which are shown in Exhibit 4-37, were as follows:



Q1 Periodical sessions on Resource Management?

Q2 Do managers have required indocrination by comptroller?

Q3 Is there an internal procedures training course or manual?

Q4 Training periodically on incentive programs?

Q5 Frequent steps taken to develop spirit of cost consciousness?

Q6 CO involved?

Exhibit 4-34

BUDGET FORMULATION FUNCTION

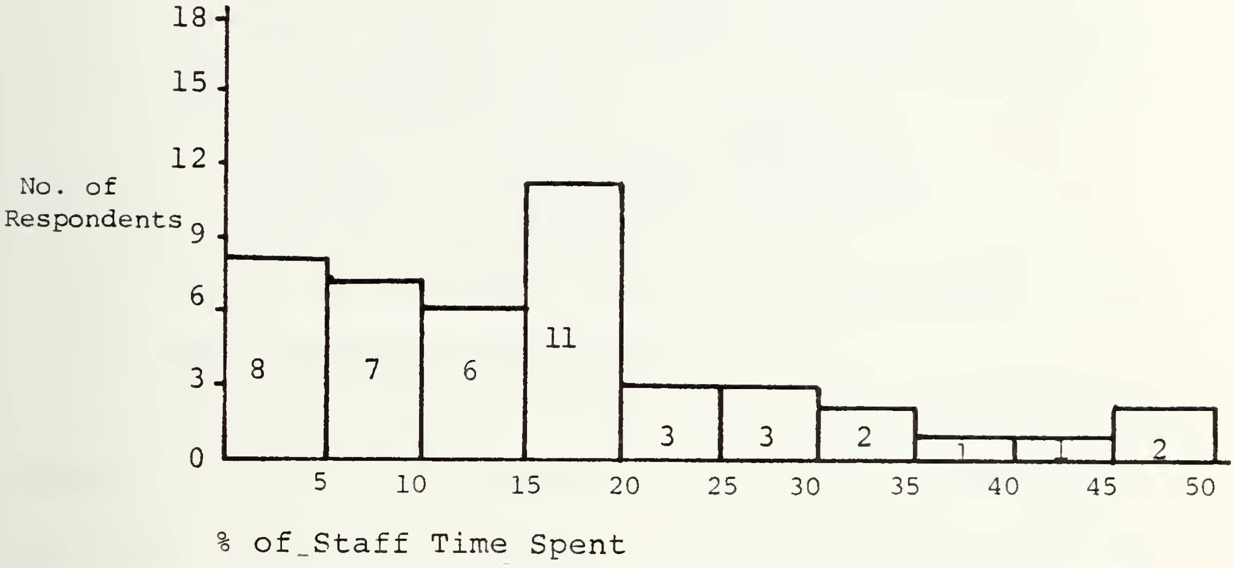


Exhibit 4-35

BUDGET EXECUTION FUNCTION

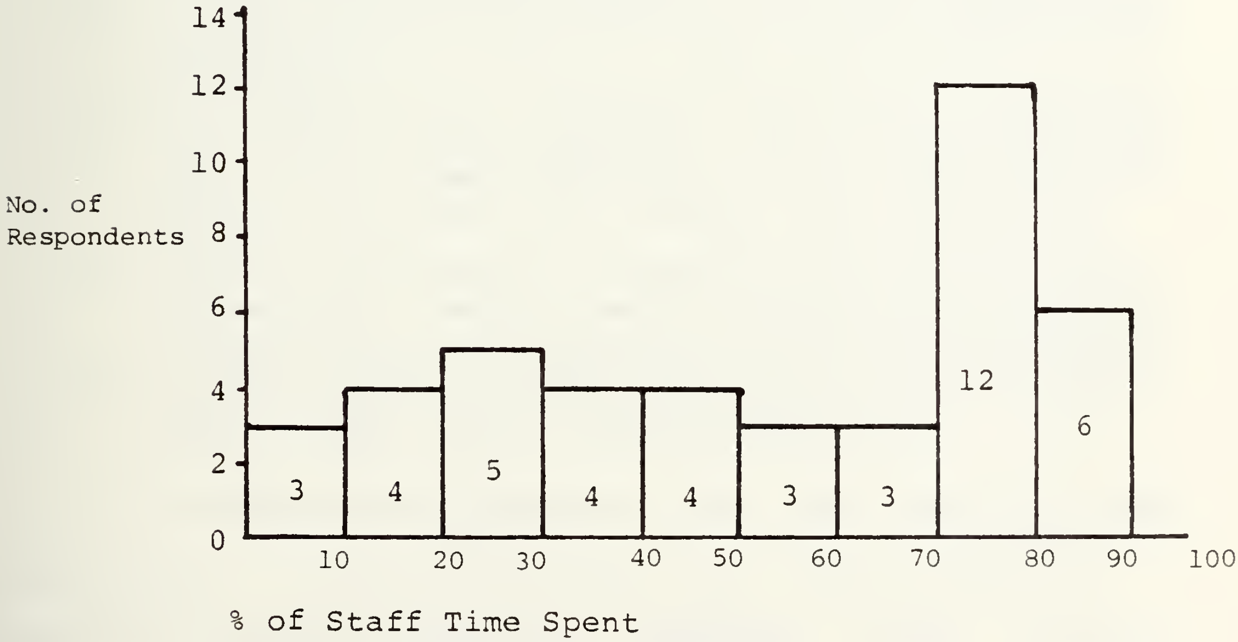


Exhibit 4-36

a. Has a priority system of programs been established on a command-wide basis in case of imposed funding limitations or cuts?
   1) Is the system centrally managed and monitored?
   2) Are inputs from all OPTAR holders coordinated?
   3) Is the system reviewed periodically by the Budget Committee to ensure validity?
b. Have you appraised your control reports and records from the standpoints of:
   1) Value of information furnished?
   2) Adequacy of information furnished?
   3) Timeliness of information furnished?
   4) Economy of top management time?
   5) Cost of preparation?
c. Is this check accomplished at least annually?

6. <u>Budget Execution Philosophy</u>

The first question in this area asked respondents to indicate which of the statement(s) which follow characterized the budget execution philosophy at their command. Responses are depicted in Exhibit 4-38.

a. All funds received should be obligated during the fiscal year, otherwise funds will be appropriately reduced next fiscal year.
b. As long as we do not violate any of the limitations, restrictions or ceilings, budget execution has been successful.
c. If obligations are approaching the limit, additional funds are routinely requested for the major claimant.
d. Every dollar spent should be closely monitored with regard to providing the taxpayer the most for his money.
e. The real importance in budgeting falls in the formulation area. Budget execution simply involves obligating monies in accordance with the approved plan.
f. As most obligations are uncontrollable at the local level, little can be done at command level in the area of cost savings in the O&M,N area.

A second similar question asked respondents to select statement(s), of those following, which characterized the operating managers' opinions of management reports currently provided by the AAA. Responses are shown in Exhibit 4-39.

a. Completely satisfactory for management control purposes.
b. Satisfactory, although locally prepared reports and monitoring systems must be utilized to properly track resource utilization.
c. Barely adequate because they are too complicated for use by operating managers.
d. Never received in time to be of use.
e. Could stand a lot of improvement so that information is presented in a more useable form.
f. Other (Specify)

MISCELLANEOUS

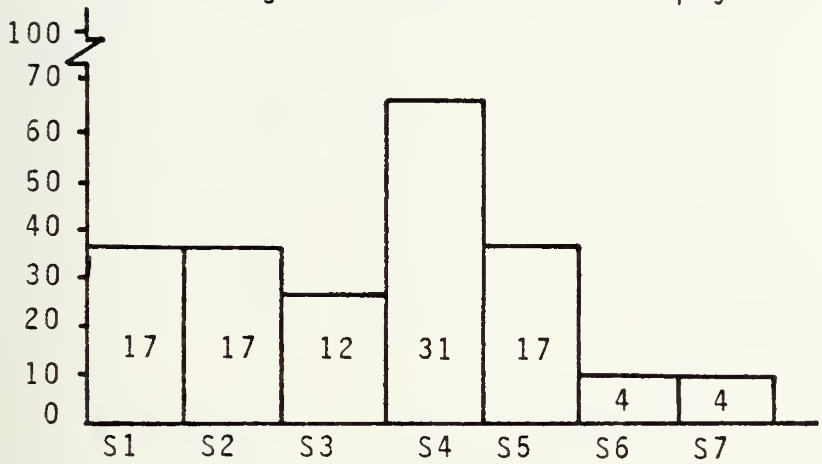
	Question	No. Respond	Yes	No	Pct.Yes
a)	Priority system of programs?	47	33	14	70.2
1)	Centrally managed and maintained?	49	34	15	69.4
2)	Inputs from all OPTAR holders coordinated?	48	34	14	70.8
3)	Reviewed periodically by Budget Committee?	43	21	22	48.8
b)	Have reports/records been reviewed for:				
1)	Value of information?	47	47	0	100.0
2)	Adequacy of information?	47	47	0	100.0
3)	Timeliness?	47	47	0	100.0
4)	Economy of top management time?	46	40	6	87.0
5)	Cost of preparation?	45	31	14	68.9
c)	Is check accomplished at least annually?	47	31	16	66.0

Exhibit 4-37

The final question on the survey asked respondents their opinion as to the greatest need in the area of budget execution of the O&M,N Appropriation at the field activity level. The respondents' replies basically fit into one of the following 11 categories:

	Category	No. Respond	Pct.
a.	Improvement in accuracy, timeliness, stability of RMS reports.	9*	18.4

Budget Execution Philosophy



S1 All funds received should be obligated to avoid reduction next year.

S2 As long as no violations, budget execution is successful.

S3 If obligations are approaching the limit, additional funds routinely requested.

S4 Should provide taxpayer most for every dollar spent.

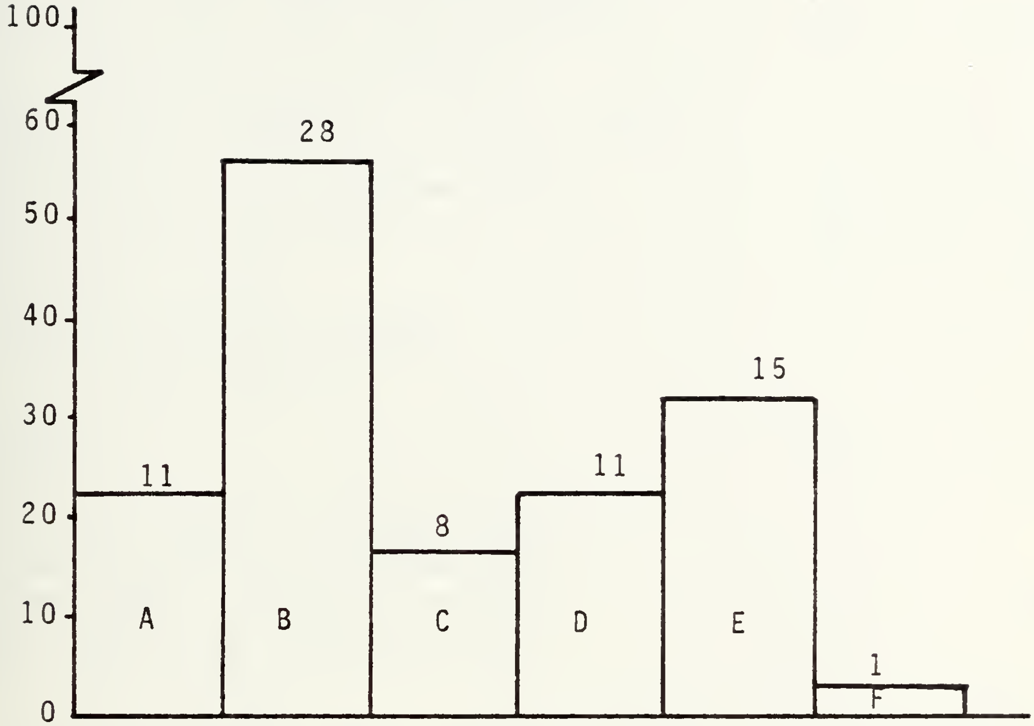
S5 Real importance in budgeting falls in formulation area; execution is simply following plan.

S6 Because most costs uncontrollable at local level, little can be done in the area of cost savings.

S7 (Write-in) Funds should be sufficient to effectively/efficiently perform assigned mission.

Exhibit 4-38

OPINION OF AAA REPORTS



A) Completely satisfactory

B) Satisfactory, but local reports needed

C) Barely adequate

D) Never on time

E) Needs improvement to be more useable

F) Other - One respondent declared that resource management was not related to day-to-day operations.

Exhibit 4-39

Category	No. Respond	Pct.
b. Need to automate budget process and have a management information system to track execution and validate obligations.	8	16.3
c. More education and training (Line community and financial community); technical and 'cost consciousness.'	8	16.3
d. Early appropriation approval.	7	14.3
e. Need to have obligation created when requisition accepted.	6	12.2
f. More flexibility at field level.	5	10.2
g. Improved AAA services.	2	4.1
h. Completion of IDA.	1	2.0
i. Solving military turnover (continuity) problem.	1	2.0
j. Clearer guidance on work unit accounts.	1	2.0
k. Eliminate military labor reporting in O&M,N financial reports and eliminate prior-year costs from current-year financial reports.	1	2.0
l. Track labor and leave costs to same cost account.	1	2.0

*One $25 million EOB holder indicated that official records are brought into line with locally prepared memorandum records.

F. ANALYSIS OF SIGNIFICANT RESULTS

The results of the questionnaire which were arrayed in the previous section of the chapter provide insight on the management control/budget execution practices presently in use at Navy shore commands. The environment in which the commands operate was detailed in Chapter III. Section C of Chapter III highlighted management control aspects and methodologies as they specifically relate to field activities. Earlier, in

Chapter II, management control was discussed in general and was studied in terms of 15 aspects. Chapter II concluded with an explanation of the MOR model, summarized at the beginning of this chapter.

At this point the reader is encouraged to go back and review Sections C and D of Chapter II, as well as Section C of Chapter III. The two sections of Chapter II address and summarize, respectively, the 15 aspects of management control. Section C of Chapter III, as mentioned, addresses a field activity's budget execution environment. Review of these sections is recommended as they provide a basis for understanding the significant results which will next be discussed.

The responses to the questionnaire provided, in the author's opinion, a trmendous amount of information regarding how the budget execution process actually unfolds at Navy shore commands. Although much could be gained by analyzing the responses to each specific question in detail, the intent is to highlight significant differences between the reported results and the theoretical foundations of management control which were addressed in Chapter II. Therefore, the following 10 general areas will be discussed: span of control, goals and objectives (including goal congruence), resource allocation, effectiveness/efficiency and productivity measurement, reporting systems and practices, variance analysis, incentive programs, auditing, training, and budget execution philosophy. For each general area, a brief overview of the more pertinent

concepts addressed in Chapter II will be provided prior to the analysis of the survey results.

1. Span of Control

The optimum span of control is believed by some management theorists to lie between 5 and 10. However, the ideal span of control really depends upon the specific environment in which the organization exists. A number of factors bear on the determination of this number, including similarity of functions, geographic continguity, complexity, direction and control, coordination and planning. The MOR model takes the span of control concept into account in the sixth step, which involves establishing controls.

Reviewing the survey results on the number of cost centers assigned (Exhibit 4-4), more activities indicated that 11 or more cost centers were assigned than indicated that they had 10 or fewer. The largest single grouping, however, was in the 6 - 10 cost centers assigned category. The propensity for centralized funds control (77.8%) further reflects the tendency toward wider spans of control than the hypothesized optimum number. The categories of funds which are centrally controlled by activities which use a mix of centralized/ decentralized funds control, however, seem to bespeak acknowledgement of the factors which might indicate a wider span of control than the claimed optimum span.

The survey results, although they do highlight differences between actual and theoretical spans of control,

leave an important, and perhaps the most critical, question unanswered. The question is: "Has the command reviewed their span of control at each management level, keeping in mind the major environmental factors which should bear on the decision?"

2. Goals and Objectives

Goals and objectives provide direction to an organization. They must be clearly stated and understood. They provide the ends toward which organizations work. Subordinates within an organization tailor their objectives so that they fit within the framework of overall organizational objectives. There is thus a great need for an environment which encourages goal-congruent behavior in any organization. The MOR model highlights the need for concrete, well-defined goals and objectives in its first (defining roles and missions) and fourth (setting objectives) steps.

Survey results demonstrated that, although 91.8% of the commands who responded communicated the impact of funding levels on mission support to managers, only 77.1% translated overall goals and objectives into financial terms. This percentage decreased to 60.4% at the department level, indicating a lesser emphasis on formalized goals and objectives as the level of management becomes further from the top. The data also demonstrated that the need to translate, or restate goals and objectives into financial terms is not considered as important a part of budget execution as the simple communicating of funding impacts.

The Administration section of the questionnaire revealed that very few major claimants (14.3%) provided specific guidance in a directive dedicated solely to budget execution. Additionally, 23.8% of the respondents reported that their major claimant did not specifically address budget execution at all in any directive or manual. Telephonic inquiries by the author to eight of the major claimants seemed to correlate with these results. The majority indicated that a significant amount of guidance was provided in regard to budget formulation, but little specific guidance, aside from a reiteration of limits, restrictions and accounting procedures, was provided in regard to budget execution. None indicated that budget execution was addressed within the context of management control system. Review by the author, of three directives from major claimants dealing with budget execution further substantiated this general finding.

At the command level, only 44.9% of the respondents indicated that they had a specific budget execution directive in existence. Of the 55.1% who did not have such a directive, less than half of them (48.4%) had an overall financial management directive that provided specific guidance on budget execution. At the field activity level, therefore, approximately one-quarter of the commands do not have any formal budget execution guidance promulgated. In addition, only about 60.0% of the respondents who replied to the question regarding the content of existing budget execution directives

indicated that the directives addressed measurement criteria, management control or use of management information. Translated into overall terms, this means that less than 35% of the commands (17/49) have budget execution guidance which addresses management control. A slightly greater percentage, but again only about 70% of the respondents, indicated that the directives addressed the standardization of recording and internal reporting. Finally, as was seen in regard to the formal statement of goals and objectives, as one moves down in the chain of command, the ranking of costs is stressed to a lesser degree (90.9% prioritize costs at the command level but only 52.9% at the cost center level).

3. Resource Allocation

The primary need in this area is to have a process or procedure which continuously asks if time and resources are allocated in accordance with defined priorities. Such a process should be simple and effective and utilization of a board or committee represents one possible management approach to overseeing the resource allocation function (the pros and cons of committee utilization were discussed in Chapter II). Morrisey in developing the MOR process, addresses the resource allocation aspect of management control when discussing the 'Principle of the Critical Few," both in terms of deciding on key results areas and establishing controls.

As reported, less than half (46.9%) of the commanding officers are specifically involved in all resource allocation

decisions and only about 35% of responding commands use a board or committee to fulfill this function. Where a board does exist, it <u>is</u> involved in resource allocation decisions, however, only about half of the boards have command-wide representation. Approximately half of the boards are chaired by the commanding officer of the activity and a quarter by the comptroller; the remainder are either chaired by the XO (6%) or an undisclosed individual. Over 90% of the boards are involved in reprogramming decisions and policy matters (recommending changes to goals and objectives), but slightly less than two-thirds are involved in the monitoring function or recoupment actions. It is clear that there is not an agreed-upon standard on the scope of activity expected of such a board.

Analysis of the responses regarding the maintenance of 'contingency' funds (this specific term was not utilized in the survey due to its adverse connotation) revealed that about three-fourths of shore commands maintain such funds; the majority of the funds being managed by the comptroller. Although some indicated far larger percentages, the majority of respondents (62%) reported that emergency requirements funds represented 1% or less of their EOB.

4. <u>Effectiveness/Efficiency and Productivity Measurement</u>

Both effectiveness and efficiency are vitally important to organizational success. Output measures must relate to both of these concepts and, if at all possible, should be in

in the same terms as stated objectives. For nonprofit organizations, quality considerations are the most important because there is not an economic market mechanism which forces quality comparisons as is the case with pricing considerations in the private sector. The MOR model stresses the many facets of effectiveness, efficiency and productivity measurement in the step which involves selecting indicators.

Analysis of this section of the questionnaire supports a trend alluded to in the goals and objectives analysis section. As one moves further down the chain of command, the existence of specific goals becomes less pronounced within organizations; only 46.9% of respondents had measurable goals established for all subordinate groups in the area of cost, 34.7% in the area of schedule, and 22.4% in the area of quality (supposedly the most important concern for nonprofit organizations). Less than 50% of the commands indicated that effectiveness and efficiency standards were set for major mission elements. Where they were set, however, there apparently was a link to resource utilization and the system did provide for feedback to be used in validating standards. Only slightly more than half of the respondents compiled and monitored workload data or delineated critical outputs. In effect, only about half of the commands indicated that formal standards or procedures existed for monitoring command effectiveness and efficiency.

5. Reporting Systems and Practices

An accurate, timely, understandable and meaningful reporting system is an indispensable part of a management control system. In fact, the most basic requirement of a reporting system is to provide information on performance to managers in such a manner that corrective action can be initiated before major problems develop. Providing information to the essential point of control is thus an important aspect of reporting; as is top management interest and involvement. Although a reporting system does not control itself, it forms a foundation for the control process.

Three-fourths of the responding commands indicated that funds status reports were received by the comptroller, whereas only about half indicated that they were sent to the CO, department or cost center level. These results were not unexpected considering the tendency toward centralized funds control. However, further involvement at the CO and cost center level could possibly lead to enhanced cost consciousness and economy of operations.

Analysis of the results relating to the UMR System indicated that nearly one-fifth of the responding commands did not receive the Funds Control reports and one-fourth did not receive Performance reports. Of those receiving the funds control reports, three quarters opted for the Responsibility Center Report and the Department/Division Detail Report, while only about half opted for the CO's Summary. Approximately

three quarters of the commands who received them considered the reports to be timely and accurate, but slightly less than 70% considered them to be useful for management control. Discounting the two respondents who only recognized the management control value as historical, the percentage of those who classified the report as useful was effectively reduced to 63.2%. If you include consideration of those who do not use the reports at all, only in 49% of shore commands (24/49) is the UMR Funds Control Report a useful management control aid.

Similar results are arrived at following analysis of the results of the questions concerning the UMR Performance Reports. The effective usefulness percentage is approximately 51%. The utilization of and reported usefulness of the Optional Reports available under the UMR System were even less pronounced.

Whereas about two-thirds of responding commands indicated the existence of a financial results-oriented reporting system other than the UMR, only about 35% revealed that a performance results-oriented reporting system existed. The lack of a formalized vehicle for tracking performance results was not surprising considering the absence of an emphasis on efficiency and effectiveness standards reported by about half of the respondents. The significant scarcity of reports containing a cross-walk between financial and performance results further supported the findings on a general lack of emphasis on productivity measurement at about half of the activities who responded.

Analysis of the questionnaire section which addressed the interaction with the AAA is considered to be worthy of mention at this point rather than in a separate section. Generally, about 60% of respondents asserted that sufficient and specific guidance/procedures were provided by the AAA on their reports. While 64.4% maintained that AAA reports were timely, only 57.8% believed them to be accurate. Additionally, review of the responses concerning operating managers' opinions of AAA management reports revealed significant displeasure: Only 22% considered them to be completely satisfactory while over 30% indicated that they needed vast improvement in the area of usefulness. Over half of the commands did consider AAA management reports to be satisfactory, but they indicated a need for back-up, locally prepared reports.

6. Variance Analysis

The identifying and measuring of variances between actual and budgeted amounts, and, most importantly the discovering of the causes of such variances, is a central need in a management control system. Having discovered the cause, it is equally important to pinpoint the responsibility, to get managers to provide explanations for variances and to implement corrective action, if necessary, to eliminate unfavorable trends. Additionally, the pinpointing of responsibility for variances provides top management with information which could weigh upon the performance evaluation of managers. Morrisey recognized all of these needs relating to variance

analysis in developing the sixth step (establishing controls) of the MOR process.

Questionnaire results indicated that, not only did eight of the 49 respondents totally neglect variance analysis, but only half of the activities who replied indicated that there was a formal reporting mechanism which required explanations of variances. And only slightly more than four-tenths revealed that the system provided for causes or effects of variances. A little over one-half of the commands reported that the reporting system provided for revised estimates and forecasted needs.

Between 60 and 70% of the respondents declared that both positive and negative variances were investigated, that corrective action was initiated or recommended on significant variances, and implementaiton follow-up was conducted. However, only about half of the field activities said that the control system provided for fixing responsibility or officially channeling this information back to appropriate managers. And, only 28.3% indicated that the responsibility for variances was considered in the area of personnel performance evaluation. The apparent unwillingness to use the results of investigating variances for such evaluation was further highlighted when less than one-fifth of the responding commands asserted that specific sanctions were utilized for recurrent instances of negative variances.

Responses to the question on the types of analytical tools utilized by field activities in studying variances revealed that formal mathematical or statistical techniques are generally not widely used. In the case of every analytical tool listed, less than one-fourth of the commands indicated that the technique was used, with most of the utilization percentages below one-sixth. The most frequently cited analytical tool utilized was statistical inference (24.5% of the commands).

Although three-quarters of the commands indicated that there was provision for the prompt expediting and feedback of information on variances and their effects to management, results already discussed revealed that there was not a great emphasis on discovering the specific cause of variances or pinpointing responsibility. The assumption here is that many systems provide feedback which alerts managers as to the existence of variances, but goes no further. As a related matter, less than half of the activities declared that the reporting system had a mechanism for evaluating changes when a significant workload shift occurred.

7. Incentive Programs

One of the main purposes of any management control system is to motivate personnel to initiate actions which support organizational objectives. Productivity incentive programs are more difficult to implement in the public vice the private sector, but are no less important.

Approximately seven-tenths of responding commands claimed to have incentive programs in effect designed to stimulate productivity improvement. The greatest number of activities asserted that recognition items, such as certificates or awards, were utilized and two-thirds stated that formal communication channels publicized productivity improvements. Productivity goals included both efficiency and effectiveness criteria to a lesser degree (almost six-tenths) but this is not surprising in view of earlier responses on the establishment of efficiency and effectiveness standards.

It was asserted by less than four-tenths of field activities that productivity improvement was discussed in budget performance meetings. The failure of many commands to tie performance results to financial results, as previously highlighted, was again evident in this statistic. Starling's (1977) claim that government management systems generally are not designed to reward good performance was supported by questionnaire results which indicated that again only about four-tenths of the responding commands recognized the achievement, by operating managers, of objectives for less than the budgeted amount.

8. Auditing

An internal auditing and review function is an integral part of a viable management control system. Its scope covers all aspects of an organization. The success of the

auditing function depends to a large degree on the auditing staff's independence from the activities audited.

Nearly 15% of the shore commands who replied declared that an internal audit function did not exist; this percentage was increased to over 18% when the gapped billet and dual-hatted comptroller/auditor was included. Only slightly more than one-quarter of the respondents asserted that the audit staff was separated and distinct from the comptroller's organization. And, of the 39 respondents who replied to the question concerning the reporting senior of the auditor, less than half indicated the commanding officer.

However, almost 90% of those who replied claimed that formal reports on findings were promulgated by the audit staff. And, over 80% declared that formal replies were required of operating managers.

9. Training

Training and education greatly facilitate the management control process, and, to some degree, lessen the need for indirect control (see Section C14 of Chapter II). A comprehensive training program can assist operating managers in achieving organizational goals by providing a broader-based understanding of the overall system.

While six-tenths of the responding commands revealed that training sessions on resources management were conducted, only half maintained that operating managers had to participate in an indoctrination session by the comptroller. Less

than four-tenths had a course or manual on internal procedures and slightly less than one-third conducted training on incentive programs. The lack of emphasis on productivity improvement was again clearly accentuated by analysis of this response.

Although about three-fourths of the commands claimed that frequent steps were taken command-wide to enhance cost-consciousness, less than 40% maintained that the commanding officer was involved in indoctrination and training. These results, coupled with the fact that over 16% of the respondents revealed that training and education was believed to be the greatest need in the area of budget execution, generally indicated the absence of a full commitment to the management control and financial training function at Navy shore commands.

10. <u>Budget Execution Philosophy</u>

The philosophy which activities internalize in regard to what the budget execution process involves has a significant impact on the linking of budget execution and management control. Such philosophical views can range from considering the budget a mandate to spend to acknowledging the need for complete fiscal and managerial responsibility in expending public funds.

A little over six-tenths of responding commands indicated a belief that every dollar should be closely monitored to achieve maximum benefit for the taxpayer. Nearly 35% of shore activities revealed that all funds received should be obligated lest they be subsequently reduced. The same

percentage held the view that budget execution was successful as long as limitations were not violated. Again, about 35% claimed that budget execution simply involved following a plan, the importance of the budgeting function lying in the formulation area. However, the results of the distribution of staff time spent on formulation vice execution did not support this in actual practice; while 73% of the commands reported spending 20% or less of their time on formulation, 84% of the commands reported spending greater than 20% of their time on execution and four-tenths reported the percentage of time was 70% or greater.

G. SUMMARY

This chapter reviewed the MOR model, reported questionnaire results, and analyzed the significant results in terms of the conceptual foundations of management control presented earlier in Chapter II. An overriding purpose was to investigate the interrelationship of management control and budget execution at Navy shore commands, a concept which has been stressed throughout this thesis. The MOR model was reviewed at the outset of the chapter to reacquaint the reader with its basic concepts as the MOR process is considered, in the author's opinion, to have vast potential for application at Navy shore commands in regard to the management control/ budget execution function. Chapter V will present the conclusions of the author attendant to this research effort and will also make recommendations for possible system improvements and further research.

V. CONCLUSIONS AND RECOMMENDATIONS

A. INTRODUCITON

The stated objective of this thesis was to study the execution of the O&M,N Appropriation at Navy shore activities in order to determine what specific control systems or procedures existed at shore commands which detailed how the O&M,N budget was to be executed. Chapter I provided an introduction to the general subjects of management control and budget execution and provided insight on the intermingling of both concepts. Chapter II discussed management control/budget execution in detail, explained 15 aspects of management control, and presented the MOR management control model. Chapter III provided a brief overview of budget execution practices and procedures within the DON, highlighting the environment within which Navy shore activities operate. Chapter IV presented and analyzed the results of a budget execution questionnaire which was completed by the comptrollers of 49 field activities.

This chapter will present the author's conclusions concerning budget execution practices currently in existence. The chapter will also contain recommendations designed to foster improvements in the area of budget execution/management control at Navy shore commands. To best achieve these purposes, the chapter will consist of four sections: general comments and overview; discussion of significant results areas from Chapter IV concomitant with appropriate

recommendations; recommendations for further research; and concluding remarks.

B. GENERAL COMMENTS AND OVERVIEW

This research effort was considered to be a ground-breaking effort by the author in the subject area as numerous literature searches of academic endeavors failed to uncover any substantive results which addressed budget execution at the field activity level. The study of budget execution, within the context of a management control framework, was also considered to be extremely complex and pervasive. Not wanting to get bogged down in the minutia of the record keeping and accounting procedures, the author's intent was to study budget execution from a managerial point of view. Thus, a common thread which ran throughout the entire research effort concerned the interrelation of management control and budget execution. Additionally, the MOR model was frequently cited in this thesis as a possible methodology to utilize for controlling the budget execution process.

The results of the research provided, in the author's opinion, a great wealth of information regarding, in aggregate form, the actual status of the budget execution process at shore commands within the Navy. While space and time constraints did not allow disection of all questionnaire results, the results most relatable to the general premise of the thesis were extracted and analyzed. These results formed the basis for the conclusions and recommendations which follow.

One factor which continuously nagged at the author during the analysis phase of the research concerned the judgement of what constituted a 'satisfactory' percentage response to each question. The idealistic view that 100% of shore commands should carry out the budget execution function within the framework established by the management control model developed in Chapter II was hardly realistic. Yet, some confounding questions remained: Where should the satisfactory response level lie? At 90%? 80%? Should the level vary by specific questions? By type, size or mission of each shore activity?

Unable to resolve this dilemma to his own satisfaction, the author decided to simply present the results without inference to a standard and to draw conclusions based on a subjective judgement as to the meaning and implications of the answers provided by the respondents. While this approach was admittedly not 'scientifically' or statistically sound, it was considered to be a very worthwhile and useful methodology to use in summarizing the results of this broadly-based, general study of budget execution at Navy shore commands. In other words, the objective of the thesis was met!

C. SIGNIFICANT RESULTS AREAS

The ten significant results areas which were specifically addressed at the conclusion of Chapter IV ranged from span of control to budget execution philosophy. This section will present each of these ten areas in the same order as found

in Chapter IV. Applicable conclusions will be formulated based on the analysis of the research results and appropriate recommendations made. Following the discussion of these ten areas, a general conclusion regarding the state of budget execution at Navy shore commands will be presented and an overall recommendation made.

1. Span of Control

The majority of shore commands (58.5%) reported a span of control which was wider than that which is considered to be an optimum span of control (6 - 10). The wide range of responses regarding the number of cost centers assigned (1 to 216) pointed to the distinct possibility that a standard for determining what the optimum level should be did not exist. In fact, review by the author of the references listed at the end of this thesis, as well as other DON financial management directives, failed to uncover any discussion of a managerial span of control in relation to the assignment of cost centers. If such standard guidance was available, shore commands could more readily review their span of control at the cost center as well as all other management levels as suggested in Chapter IV.

Analyzing the managerial span of control at every hierarchical level within a field activity could lead to increased organizational effectiveness and efficiency. Such an analysis could pinpoint cases of overburdened managers as well as underutilized managers. Armed with this

information, a realignment of command structures could possibly facilitate a smoother work flow for the entire organization and result in better cost control and productivity monitoring. However, guidelines are required which would enable shore commands to undertake a span of control audit.

a. Recommendation

That the Comptroller of the Navy and applicable major claimants include discussion of a management span of control in their guidance concerning the organizational structure for financial management at Navy shore activities. The discussion should include acknowledgement of environmental factors and varying mission requirements. Further, each shore activity should be directed to review their span of control at each management level and initiate action as deemed appropriate.

2. Goals and Objectives

Survey results revealed that the formalization of goals and objectives decreased as the managerial level within shore activities descended from the top. Additionally, the translation of command objectives into financial terms was less pronounced than the simple statement of objectives at both the command and department level. Even the simple impact of funding levels was not promulgated to operating managers at all commands. Further, for a command function that was reported as consuming such a large percentage of the

comptrollers staffs' time (see Exhibit 4-36), it was alarming that so little specific guidance had been promulgated.

Formal guidance on the subject of budget execution was significantly lacking from the major claimant and the promulgation of budget execution guidance locally did not completely fill this void. When guidance was provided, by either the major claimant or field activity itself, it generally did not discuss the concept of management control. The majority of such guidance involved detailed explanations of limitations and restrictions and a recapitulation of accounting procedures.

A management control system (MCS) for budget execution, a system which would highlight the need to articulate goals and objectives in financial as well as normal terms, could enhance goal-congruent behavior throughout an organization. Adaptation of such a MCS would accentuate the inseparability of the concepts of management control and budget execution. Financial and operating managers would be working within the same managerial framework, exchanging information on the financial and productivity/mission output impacts of fiscal as well as operational decisions. Improvement in the efficiency, effectiveness and economy of command could certainly result.

a. Recommendation

That the DON develop a Resources Management Handbook, addressed to financial as well as operating managers,

which delineates a MCS for budget execution. The need for both detailed accounting guidance and complete explanation of limitations, restrictions and the like is acknowledged, and current directives on these subjects would not necessarily require modification. However, at the field activity level, there is a widespread need for budget execution to be linked to management control. Given specific guidance in the form of a Resources Management Handbook, commanding officers of shore activities, in conjunction with their comptrollers and department heads, could more readily tailor a MCS to meet their own particular command needs.

3. Resource Allocation

The resource allocation function was not standardized at Navy shore commands. Commanding officers were not specifically involved at about half of the activities and only about one-third of the activities had a functional resource allocation board or committee. The assumption is that, in most of the remaining cases, resource allocation decisions were made by the comptroller or his/her staff.

The requirement for a Resource Allocation Board at Navy shore commands could enhance the decision-making process in regard to allocating resources in accordance with established priorities. Representation of all significant organizational elements would increase the likelihood that all pertinent factors were considered. The involvement of the activity commander would be indicative of the importance of this function.

a. Recommendation

That, as part of the Resources Management Handbook addressed in the previous recommendation, the structure, membership and function of a Resource Allocation Board be delineated. Such boards should be chaired by the commanding officer and include representation of all organizational entities. The board should not only make decisions regarding resource allocation, but should be involved in financial and performance monitoring, reprogramming decisions, recoupment actions and policy formulation. The existence of such a command structure would lead to the enhancement of goal-congruent behavior at all levels of command.

4. Effectiveness/Efficiency and Productivity Measurement

There was a general lack of emphasis on the formalization of effectiveness and efficiency standards within the commands who responded to the survey. Thus, productivity measurement was not, in about half of the cases, viewed as an essential function. Due to this lack of emphasis, measurable, quantitative goals for subordinate groups within commands were significantly lacking.

Accurate, meaningful standards provide a yardstick against which performance can be measured. Although the usefulness of standards in a production-oriented organization is clear, standards are no less needed for all areas of command performance in any organization, whether production-oriented or not. In nonprofit organizations, quality-oriented goals and standards are particularly needed.

a. Recommendation

That a renewed emphasis be placed on productivity improvement at all Navy shore commands. Activities should be directed to establish effectiveness and efficiency standards for all major mission areas. Further, critical outputs should be identified and measurable goals (especially in the area of quality) established. These goals and standards should be directly relatable to resources utilization. Guidance on these areas could also be included in the Resources Management Handbook.

5. Reporting Systems and Practices

Overall, the research results indicated that a timely, meaningful reporting system designed to assist comptrollers and operating managers in the function of management control, was still a need which had not been satisfactorily fulfilled. The reports of the UMR System were perceived as useful management control tools by, effectively, only half of the respondents. Back-up, results-oriented reporting systems existed at many commands, but the majority were concerned with financial results and only slightly more than one-third addressed performance results. Research results also revealed that a cross-walk between financial results and performance results was generally lacking in 60% of the responding commands.

As alluded to in Chapter IV, this fact corroborated the conclusions of the author concerning the general lack of

emphasis on productivity monitoring and its link to resource utilization. Additionally, these results again indicated a basic misconception of the budget execution/management control link detailed earlier in the goals and objectives section of this chapter.

Reporting systems exist to support management in fulfilling their many functions. Timely, accurate and meaningful reports are a cornerstone of a viable MCS. To be really effective, that is, to provide information which would allow managers to take actions before major problems arise, reports should be directed to the primary point of control.

a. Recommendation

That an effort be initiated by the Comptroller of the Navy to determine how the UMR System could be modified to better serve Navy shore commands, particularly in the area of productivity monitoring and supporting the management control function. Further, that every shore activity conduct a detailed review of the reporting system in effect locally. Such a review should include inputs from commanding officers, operating managers, the comptroller and key staff members, and AAA representatives. The purpose of the review would be to determine what actions could be taken to more clearly link budget execution and management control while providing a definite track on command productivity.

6. Variance Analysis

The need for detailed and complete variance analysis and its usefulness in fulfilling the management control function was not generally recognized at the field activity level. This was particularly evident in the areas of fixing responsibility for variances and considering the results of variance analysis in personnel performance evaluations. It is acknowledged that such factors as inflation, rising energy costs and the like lead to many instances of negative variances, and, in these cases, responsibility cannot be fixed nor evaluations affected. However, when negative variances can be traced to declining productivity or managerial ineptitude, such information should weigh upon the performance evaluations of appropriate managers.

Variance analysis can be a powerful management control tool. Full utilization of the concept of variance analysis can lead to the establishment of an environment of cost consciousness and a mentality highlighting the need for a continuing concern for productivity and its improvement.

a. Recommendation

That the requirement for a comprehensive variance analysis program be stressed by major claimants for their subordinate commands. Variance analysis efforts should support productivity improvement and should assist commanding officers in evaluating managers. It is also recommended that the Resources Management Handbook earlier mentioned include a

section dealing with the importance of and specific techniques available for conducting variance analysis.

7. <u>Incentive Programs</u>

The failure, in a significant percentage of shore commands, to link productivity improvement and budget performance was further supported by the findings in this area. Results revealed the lack of a general emphasis on incentive programs which tied efficiency and effectiveness concerns to financial performance.

An environment of cost consciousness and a productivity improvement mentality, as previously discussed, could greatly enhance the optimalization of resources utilization at shore commands. Incentive programs can be specifically designed to foster such an environment and mentality, again supporting goal-congruent behavior throughout the organization.

a. Recommendation

That, concomitant with the renewed emphasis on productivity improvement, shore commands develop and implement a rewards-oriented incentive program which is designed to clearly recognize outstanding achievements leading to improved efficiency, effectiveness and economy of operations. Additionally, that improvements in productivity be tied to their financial impacts and that such improvements be discussed by top managers to determine possible application to other areas of command.

8. Auditing

Research results indicated that an audit function was generally recognized as a definite need. However, the necessity for independence of the auditing staff from all the command elements it was designed to oversee was not fully recognized. As reported, only one-quarter of the staffs were separated from the comptroller's function and less than half of the auditors reported to the commanding officer.

An independent, formalized internal review function is an absolutely essential aspect of a MCS. The internal auditor is the right-hand man of the commanding officer as the auditor's findings can form the basis for many improvements in both financial and results-oriented performance. The auditor's position must be established such that his assistance is welcomed as a means of improving operations. He has to be perceived as wearing a white hat, not a black one.

a. Recommendation

That major claimants require subordinate commands to restructure their organizations such that the internal audit function is independent of the operating and financial functions of command. Further, that the auditor be required to report directly to the commanding officer except in those cases where he/she conducts a management study in response to the request of an operating manager. A great deal of effort should be directed toward enhancing the credibility of the auditor and establishing his or her function as an indispensable link

in continuing efforts to improve command performance in all areas of concern. Also, if sacrifices have to be made in other functional areas to ensure that the auditor's staff is adequate for the task, the command concerned should make those difficult decisions in support of this most important command function.

9. Training

The training function at Navy shore commands was not generally designed to support a budget execution/management control system. The absence of a perceived need for interaction between training and productivity improvement was also demonstrated by the research results.

Training and communication are absolutely essential if an across-the-board emphasis is going to be placed on improving budget execution/management control practices at field activities. The training function paves the way for creating an atmosphere of understanding and cooperation between all organizational elements. Top management involvement is essential to this training function if overall improvements are to be realized.

a. Recommendation

That, as a major part of a broadly-based effort to improve budget execution practices and procedures, every shore command initiate a formalized training program covering all aspects of resources management, financial performance and productivity improvement. Internal procedures should be

formalized in a training manual or course and all operating managers should be required to undergo indoctrination concerning the link between operating results, financial performance and productivity improvement.

10. Budget Execution Philosophy

Far too many activities held the views that authorized funds should be totally expended, that budget execution success was achieved if limitations were not violated, and that budget execution simply involved carrying out a plan. Thus, the absence of a perceived link between budget execution and management control was again indicated.

A command philosophy which encourages cost consciousness, productivity improvement, and the maximum possible efficiency, effectiveness and economy of operations would go a long way toward achieving the illusive goal of optimalization of usage of assigned resources. Such an environment would allow every manager within an organization to have 'ownership' in an overall effort to expend public funds in the most prudent manner possible and in keeping with legislative intent.

a. Recommendation

That an immediate, Navy-wide effort be undertaken to stress the importance of budget execution and to initiate the adaptation of a MCS at each command. That the recommendations included herein be considered as a starting point in a major effort to improve the practices and procedures currently in force for executing O&M,N appropriated funds at the field activity level.

11. <u>General Conclusion</u>

An overview of the research results reported leads to the conclusion that the budget execution function is generally perceived at the shore activity level as an accounting-oriented process which is designed to ensure that funds are obligated in accordance with the purposes intended and within limits prescribed. Further, that obligations are coded and categorized in an exact manner to ensure that the reporting system requirements are met. The linking of budget execution to management control was simply not generally acknowledged. Also, the absence, at numerous activities, of goals, standards and monitoring devices which addressed efficiency, effectiveness and productivity concerns indicated a chasm between financial results and performance results tracking.

This misconception as to the scope of the budget execution function is believed to be a significant hindrance to exploiting a potential for vast improvements in overall effectiveness at Navy shore commands. Were the budget execution function integrated into a dynamic, purposeful and command-supported MCS, an environment would be precipitated which stressed both fiscal integrity and maximum mission effectiveness. The adaptation of such a MCS would demonstrate to both financial and operating managers that productivity concerns and cost consciousness are compatible; that everyone is striving to achieve the same goal: maximum mission effectiveness concomitant with optimalization in the utilization of available resources.

The MOR model provides a very worthwhile framework for a dynamic, purposeful MCS which could be implemented at Navy shore commands to facilitate the achievement of this common goal. The real strength of the model lies in its simplicity, flexibility and adaptability. Thus, it is recommended that the MOR model be adopted as a general framework for the O&M,N budget execution function at Navy shore commands.

One other factor bears mention. The Resources Management System (RMS) was designed to promote better management by providing managers with improved means of obtaining and controlling the resources required to accomplish missions. Results of this research must lead one to ask if the controlling portion of RMS has fulfilled its intent and whether some basic changes are required to make the system more responsive to management needs at the field activity level.

D. FURTHER RESEARCH

This research effort, as earlier alluded to, was believed to be a fledgling undertaking in an area within which there existed the potential for significant system improvements. Nearly every area of significant results addressed could be studied in far greater detail, thereby leading to the formulation of more specific and explicit recommendations. The responsiveness of the RMS to the control function at the local level is yet another area of the study which could pay vast dividends.

However, the research endeavor most heartily endorsed would involve the formulation and promulgation of a Resources Management Handbook which deals with the many aspects of both management control and budget execution addressed herein. The research could be conducted under the sponsorship of NAVCOMPT and could result in a manual which essentially encompasses the majority of the recommendations that resulted from this author's research in the area of O&M,N budget execution at Navy shore activities.

E. CONCLUDING REMARKS

It is time to return to basics - the basics of sound management. Budget execution and management control cannot be viewed as dissimilar concepts; they are by necessity completely interwoven. Schick (1964) wrote: "As budget execution becomes more and more enmeshed in its own rigid and elaborate techniques, sight is lost of the purposes of a budget system - the efficient allocation of scarce public resources." [43: pg 98]. The challenge is apparent; the time to act is now!

APPENDIX A

ORGANIZATION

1. Type of Command ______________________

2. Name of major claimant ______________________

3. Size of O&MN appropriation (direct): ______________________

4. Do you consider your staff to be adequate for the budget execution function? (Comment) — YES ___ NO ___

5. Span of Control
   a. How many cost centers are assigned? ______________________

	YES	NO
b. Do you utilize centralized funds control?	___	___
c. Do you utilize decentralized funds control?	___	___
d. Is a mix of centralized/decentralized funds control used? (Specify funds controlled centrally)	___	___

6. Goals and Objectives/Mission Support Requirements

	YES	NO
a. Are the command's overall goals and objectives reiterated in financial terms and promulgated by the comptroller?	___	___
b. Is the impact of funding levels on mission support communicated to all managers?	___	___
c. Are department heads required to promulgate goals and objectives?	___	___
1) Are they required to also state their goals and objectives in financial terms, consistent with the comptroller's guidance?	___	___

7. Resource Allocation

a. Is the Commanding Officer specifically involved in all resource allocation decisions?	___	___
b. Is there a functional Resource Allocation Board, Budget Execution Committee, Resources Utilization Council or the like at the Command?	___	___
1) Is this board specifically involved in resource allocation decisions?	___	___
2) Is the board chaired by the CO?	___	___
Is the board chaired by the comptroller?	___	___
3) Are all command departments, cost centers, or organizational elements represented on the board?	___	___
4) Is the board involved in the monitoring function of resource utilization?	___	___
5) Is the board involved in reprogramming decisions?	___	___
6) Is the board involved in recoupment actions?	___	___
7) Do they make recommendations regarding changes to goals and objectives based on changing conditions and actual resource utilization?	___	___

1

YES NO

c. Are funds centrally maintained to meet emergency requirements? ___ ___
   1) Are they managed by the CO? ___ ___
      Are they managed by the comptroller? ___ ___
   2) What percentage of total O&MN funds do they represent? ______
d. Is a command-wide funding schedule promulgated? ___ ___

ADMINISTRATION

1. Is specific guidance provided from the major claimant which addresses the area of budget execution by itself?
   a. If no, is any specific budget execution guidance provided in an overall financial management instruction or budgetary directive from the major claimant? ___ ___

2. What form does the majority of command financial management guidance take?
   - Instructions ______
   - Notices ______
   - Budget Meetings ______
   - Memorandum ______
   - Verbal Instructions ______

3. Is there a command promulgated directive or manual specifically relating to budget execution? ___ ___
   a. If no, is any specific budget execution guidance provided in an overall financial management instruction or budget directive promulgated by this command? ___ ___
   b. If yes, does the budget execution directive specifically address:
      1) Measurement criteria? ___ ___
      2) Management control systems or procedures? ___ ___
      3) Standardization of record keeping at the OPTAR holder/Cost Center/Department level? ___ ___
      4) Standardization of internal reporting? ___ ___
      5) Requirements for external reporting? ___ ___
      6) How to glean required management information from financial reports? ___ ___

4. Have critical costs been identified by the comptroller? ___ ___

5. Are operation and support costs prioritized at
   a. Command level? ___ ___
      Department level? ___ ___
      Cost Center level? ___ ___

MANAGEMENT CONTROL | YES | NO

1. Effectiveness/Efficiency and Productivity Measurement
   a. Have measureable, quantitative goals been established for all subordinate groups, and where applicable for individuals in the areas of:
      Cost ___ ___
      Quality ___ ___
      Schedule ___ ___
   b. Are effectiveness and efficiency standards established for major mission elements? ___ ___
      1) Are measurement criteria promulgated? ___ ___
      2) Can these standards be traced to resource (input) utilization? ___ ___
   c. Does the control system provide for feedback of information which is used to evaluate the continued validity of standards? ___ ___
      1) How often are standards reviewed? ______________
   d. Is department workload data compiled, monitored and used as a standard against actual performance? ___ ___
   e. Are critical outputs specifically delineated for each program or function? ___ ___
      1) Are work counts and time utilization records maintained for these critical outputs? ___ ___
      2) Are counts and time records matched against historical trends or results from similar operations? ___ ___
      3) Are performance standards set for these critical program outputs? ___ ___

2. Reporting Systems
   a. Are funds status reports received by management:
      Weekly? ______________
      Monthly? ______________
      Quarterly? ______________
      1) To what level in the organization are the reports sent:
         CO ______________
         Comptroller ______________
         Department ______________
         Cost Center ______________
         Other (Specify) ______________
   b. Uniform Management Reporting (UMR) System
      1) Which of the following Funds Control Report are received:
         CO's summary? ___ ___
         Responsibility Center Report? ___ ___
         Department/Division Detail Report? ___ ___
         a) How often are they received:
            Weekly? ______________
            Monthly? ______________
            Other (Specify) ______________

3

YES NO

b) Are they:
   Timely? ___ ___
   Accurate? ___ ___
   Useful for management control? ___ ___

2) Which of the following Performance Report Formats are received:
   Format A ______________
   Format B ______________
   Format C ______________
   Format D ______________
   a) How often are they received:
      Weekly? ____________
      Monthly? ____________
      Other (Specify) _____
   b) Are they:
      Timely? ___ ___
      Accurate? ___ ___
      Useful for management control? ___ ___

3) Do you receive any optional report product under the UMR system such as a Budget Line Item Report? ___ ___
   a) Are you aware of all the UMR optional reports available? ___ ___
   b) Are these reports useful for management control? ___ ___

c. Aside from the UMR system, has the command established a results-oriented reporting system which provides:
   Financial results ___ ___
   Performance results ___ ___
   1) To what level are the reports addressed:
      CO ____________ Comptroller ______________
      Dept. Head _____ Other (Specify) __________
   2) Are the reports:
      Timely? ___ ___
      Accurate? ___ ___
   3) Do the reports compare actual program results with planned results? ___ ___
      Financial results? ___ ___
      Performance results? ___ ___
      a) Is there a clearly identifiable cross-walk between financial and performance reports? ___ ___
      b) Do they show actual results in the same format and period as the budgeted estimates? ___ ___
   4) Are variances in financial results clearly highlighted? ___ ___
   5) Is there some media (charts, graphs, status board, management information center) for displaying current fund status with relation to the budget? ___ ___

	YES	NO
6) Is the reporting system reviewed periodically to ensure validity?	___	___
Frequency? ________________________		
7) Does the reporting system spotlight conditions requiring action in time for action to be taken?	___	___

3. Variance Analysis

	YES	NO
a. Do the performance reports generated by the reporting system provide information which readily lends itself to variance analysis?	___	___
b. Is there a formal reporting mechanism which:		
1) Requires explanations for variances from the budget?	___	___
2) Provides causes/effects of variances?	___	___
3) Contains revised estimates when actual results differ substantially from anticipated results?	___	___
4) Forecasts needs and anticipated results through the end of the budget period?	___	___
c. Are positive, as well as negative variances investigated and the results of the investigation promulgated to operating managers?	___	___
d. Is corrective action initiated or recommended every time there is a significant variance?	___	___
1) Is any formal follow-up conducted to verify implementation of reported corrective actions?	___	___
e. Does the control system provide for fixing responsibility for deviations from established standards or variations from budgets?	___	___
1) Is the information officially fed back to appropriate managers?	___	___
2) Is such information considered, in part, in the area of personnel performance evaluation?	___	___
f. Are significant variances discussed by the CO or at Budget Committee meetings with the responsible individual?	___	___
g. Are specific sanctions utilized for recurrent instances of negative variances?	___	___
(Explain) ________________________		
h. Which of the following, if any, analytical tools are utilized in studying variances:		
Time Series Analysis	___	___
Regression Analysis	___	___
Operations Research	___	___
Simulation	___	___
Statistical Inference	___	___
Linear Programming	___	___
Correlation Analysis	___	___
Sensitivity Analysis	___	___
Other (Specify) ________________________		

	YES	NO
i. Is provision made for the prompt expediting and feedback of information to management on variances and their effects?	___	___
j. Does the control system provide for periodic spot-checks, outside of normal variance reporting, to ensure conformity to establish requirements?	___	___
k. Does the reporting system have a mechanism for evaluating changes when a significant amount of workload is added to or withdrawn from budget workload?	___	___

4. Interaction with Authorized Accounting Activity

a. Are budget revisions promptly submitted to the AAA?	___	___
b. How often are financial and performance reports reconciled with the AAA? ______________		
	ALL	PART
1) Are all or part of the reports reconciled? (Explain) ______________	___	___
	YES	NO
c. Does the AAA provide sufficient guidance describing how to read and utilize the reports they generate?	___	___
d. Are specific procedures delineated by the AAA regarding report reconciliation?	___	___
e. Are AAA reports received? Timely?	___	___
Accurately?	___	___
f. Does interface occur only at the comptroller level?	___	___
If no, explain: ______________		

5. Reprogramming/Recoupment

a. At what level are reprogramming decisions routinely made?
CO ______________ Department Head ______________
Comptroller ______________ Budget Committee ______________
Other (Specify) ______________

	YES	NO
b. Is specific guidance provided to operating managers delineating the limitations of reprogramming actions and explaining the procedures utilized to request additional funds?	___	___
c. When department/cost center authorization limits are reached before the end of an interim period (month, quarter, etc.) does the system:		
1) Provide for the discontinuation of funding	___	___
2) Require the department to submit data to support the need for increased funds?	___	___
3) Require the CO's approval for additional funds?	___	___
d. Are appropriate management actions initiated when authorization (or OPTAR) limits are exceeded without command approval?	___	___
1) What form do they normally take? (Explain) ______________		

	YES	NO
e. Are excess funds routinely identified and reported for possible reprogramming?	___	___
1) How often? ______________________		
2) Do operating managers willingly report any excesses?	___	___
f. Are all operating managers cognizant of and following recoupment directives?	___	___
6. Incentive Programs		
a. Does the command have an incentive program to stimulate productivity improvement?	___	___
1) Are monetary awards or bonuses offered?	___	___
2) Are recognition items such as certificates or awards given?	___	___
b. Do formal communication channels publicize productivity improvement?	___	___
c. Do productivity improvement goals include both efficiency and effectiveness criteria?	___	___
d. Is productivity improvement regularly discussed in budget performance meetings?	___	___
e. Do operating managers receive recognition for achieving objectives for less than the budgeted amount?	___	___
7. Obligations and Expenditures		
a. Are actual costs recorded on an obligation basis?	___	___
Expense basis?	___	___
b. Are formal comparisons made between budgeted obligations and actual obligations?	___	___
By whom: ______________________		
How often: ______________________		
c. Are reimburseables tracked centrally by the comptroller or at individual cost centers?	___	___
d. Does the obligation and expenditure approval functions:		
1) Follow centrally delineated guidelines?	___	___
2) Include determination that the amount does not exceed the authorization level?	___	___
3) Include determination that the expenditure is in line with the purpose detailed in the budget?	___	___
4) Ensure proper coding of the expenditure to facilitate recording in the accounting system?	___	___
5) Ensure that available discounts are taken?	___	___
e. Are OPTAR holders or persons with obligation authority provided firm dollar limits or spending authority for specific items?	___	___
f. Is a list of unfunded requirements maintained at the department or cost center level?	___	___

	YES	NO
1) Is a prioritized list of command-wide unfunded requirements maintained at the command level?	___	___
2) Is the unfunded requirements list checked whenever a request for additional funding is received so a comparison of priorities can be made?	___	___
3) Does the budget committee periodically review, update and reprioritize the list of unfunded requirements?	___	___
4) Is continuous justification for all unfunded requirements maintained?	___	___
g. Are OPTAR holders provided with obligation cut-off dates for the end of each funding period?	___	___
h. Are written quarterly and year-end reconciliation procedures for fiscal records promulgated to operating managers?	___	___

8. Budget Reviews

a. At what level is the Mid-Year Review conducted?

CO ______ Cost Center ______
Comptroller ______ Budget Committee ______
Dept. ______ Other (Specify) ______

1) Are results promulgated to operating managers? ___ ___

b. Are other detailed reviews of financial and productive variances conducted for internal purposes:

1) How often? ______

2) Are the following involved?

	YES	NO
CO	___	___
Comptroller	___	___
Department head	___	___
Budget offices	___	___
Other (Specify) ______		

c. Are records reconciled with the AAA following every review? ___ ___

9. Internal Audit Function

a. Is the internal auditing staff separate and distinct from the comptroller's organization? ___ ___

b. To whom does the Internal Auditor report?

CO ______ XO ______
Comptroller ______ Budget Committee ______

c. Are formal reports promulgated on the findings of the audit staff? ___ ___

d. Are formal replies required of operating managers dealing with specific findings? ___ ___

TRAINING

1. Are training sessions periodically held to acquaint operating managers with resource management procedures and guidelines? ___ ___

	YES	NO
2. Are operating managers required to participate in an indoctrination session in the Comptroller office prior to assuming their duties?	___	___
3. Is there an internal procedures training course or manual for newly reported personnel?	___	___
4. Is training conducted periodically on incentive programs?	___	___
5. Are frequent steps taken to develop a spirit of cost consciousness throughout the command so each action is weighted in terms of the costs involved?	___	___
6. Is the Commanding Officer involved in the indoctrination and training?	___	___

MISCELLANEOUS

1. On an annual basis, what % of staff time is spent on
   Budget formulation ______________________________
   Budget execution/monitoring ______________________

2. Has a priority system of programs been established on a command-wide basis in case of imposed funding limitations or cuts?	___	___
a. Is the system centrally managed and monitored?	___	___
b. Are inputs from all OPTAR holders coordinated?	___	___
c. Is the system reviewed periodically by the Budget Committee to ensure validity?	___	___
3. Have you appraised your control reports and records from the standpoints of:		
a. Value of information furnished?	___	___
b. Adequacy of information furnished?	___	___
c. Timeliness of information furnished?	___	___
d. Economy of top management time?	___	___
e. Cost of preparation?	___	___
Is this check accomplished at least annually?	___	___

4. Which of the following statement(s) do you think characterizes the budget execution philosophy at the command?

   a. All funds received should be obligated during the fiscal year, otherwise funds will be appropriately reduced next fiscal year. ________

   b. As long as we do not violate any of the limitations, restrictions or ceilings, budget execution has been successful. ________

   c. If obligations are approaching the limit, additional funds are routinely requested for the major claimant. ________

d. Every dollar spent should be closely monitored with regard to providing the taxpayer the most for his money. ________

e. The real importance in budgeting falls in the formulation area. Budget execution simply involves obligating monies in accordance with the approved plan. ________

f. As most obligations are uncontrollable at the local level, little can be done at command level in the area of cost savings in the O&MN area. ________

5. Which of the following statement(s) characterizes the operating manager's opinion of management reports currently provided by AAA?

a. Completely satisfactory for management control purposes. ________

b. Satisfactory, although locally prepared reports and monitoring systems must be utilized to properly track resource utilization ________

c. Barely adequate because they are too complicated for use by operating managers. ________

d. Never received in time to be of use. ________

e. Could stand a lot of improvement so that information is presented in a more useable form. ________

f. Other (Specify)

6. The greatest need in the area of budget execution of the O&MN appropriation at the field activity level is:

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